



FX BRIEFLY

11 July 2018

AUTHOR

Christian Apelt, CFA
 phone: +49 69/91 32-47 26
 research@helaba.de

EDITOR

Dr. Stefan Mitropoulos

PUBLISHER:

Dr. Gertrud R. Traud
 Chief Economist/ Head of
 Research

Helaba

Landesbank

Hessen-Thüringen

MAIN TOWER

Neue Mainzer Str. 52-58

60311 Frankfurt am Main

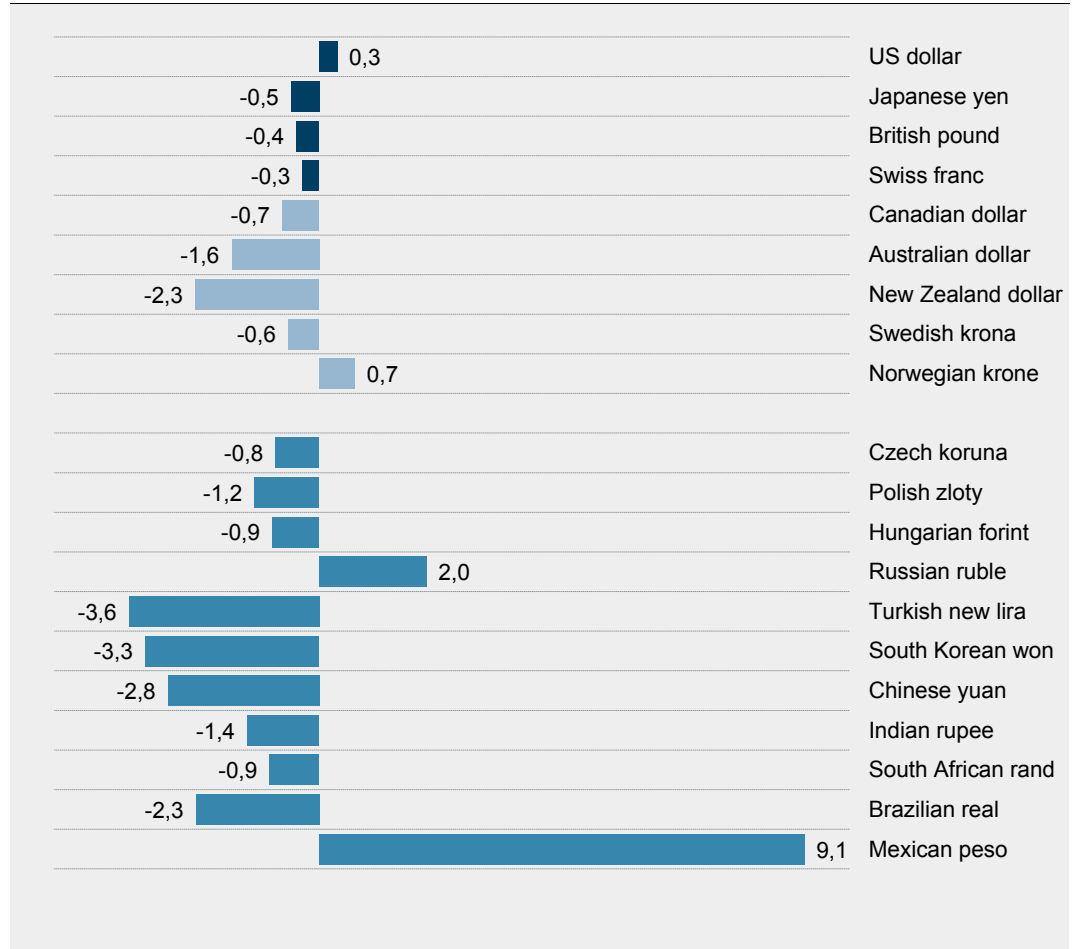
phone: +49 69/91 32-20 24

fax: +49 69/91 32-22 44

- Things were calm recently with currencies from industrialized countries, only the Australian dollar and the New Zealand dollar suffered appreciable losses. By contrast, emerging market currencies lost broadly – one exception being the Mexican peso, which appreciated strongly.
- In this edition you will find brief analyses of the US dollar, Swiss franc, British pound, Japanese yen, Norwegian krone, and the Swedish krona, as well as the Australian dollar, the Canadian dollar, and the Chinese yuan.
- Helaba currency forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 06/11 to 07/10/18)



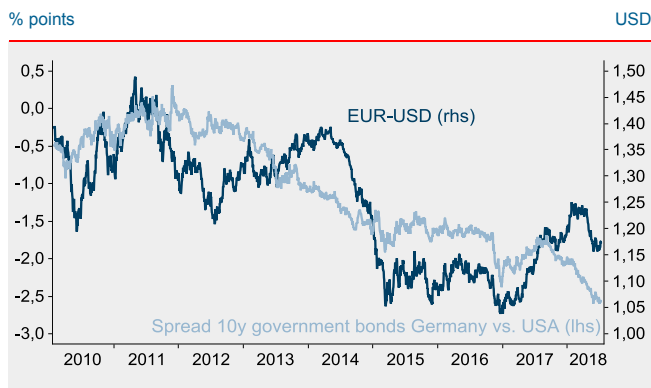
■ Core currencies ■ Rest of G10 ■ Currencies of emerging countries

Sources: Bloomberg, Helaba Research

This publication was very carefully researched and prepared. However, it contains analyses and forecasts regarding current and future market conditions that are for informational purposes only. The data is based on sources that we consider reliable, though we cannot assume any responsibility for the sources being accurate, complete, and up-to-date. All statements in this publication are for informational purposes. They must not be taken as an offer or recommendation for investment decisions.

US dollar, Swiss franc and British pound

Yield advantage supports the US dollar



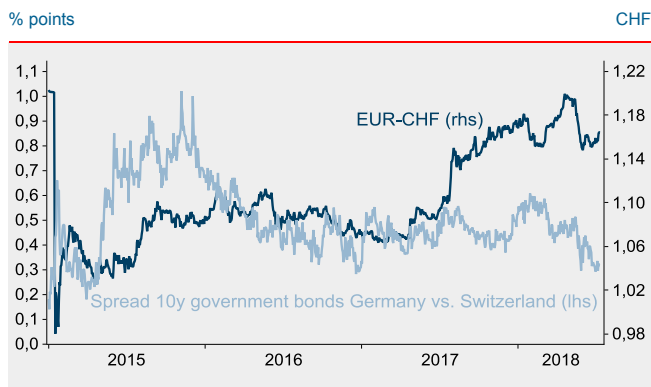
Sources: Macrobond, Helaba Research

USD

Trend: slight appreciation

On balance the euro-dollar rate traded virtually unchanged at around 1.17. While the postponement of the ECB's turnaround on interest rates weighed on the euro, the intensifying trade conflict tends to be seen negative for the US dollar, since President Trump has no interest in an overly strong dollar. At the same time, the cyclical advantage of the Greenback still prevails. Since the Fed is proceeding with the interest rate hikes in view of robust US growth, the US yield advantage is expanding further for now. The euro-dollar rate should trade around 1.15 as the year proceeds.

Franc hardly with interest rate disadvantage



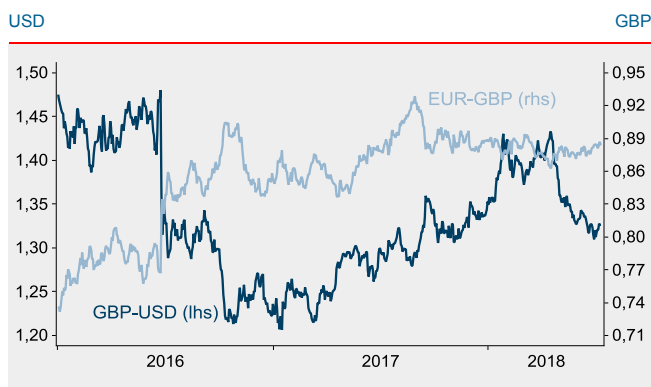
Sources: Macrobond, Helaba Research

CHF

Trend: sideways

The euro-franc exchange rate declined only temporarily and is now back above 1.16. The Swiss central bank cut its long-term inflation forecast. A turnaround on interest rates is probably even further in the future than with the ECB. And this even though the Swiss economy is growing quite robustly, inflation rose again. However, the yield disadvantage of the franc against the euro shrank most recently. Political uncertainties, especially in the EU, likewise support the Swiss currency. The euro-franc exchange rate should hover in the range of 1.15 to 1.17.

Pound sterling only with slight markdowns



Sources: Macrobond, Helaba Research

GBP

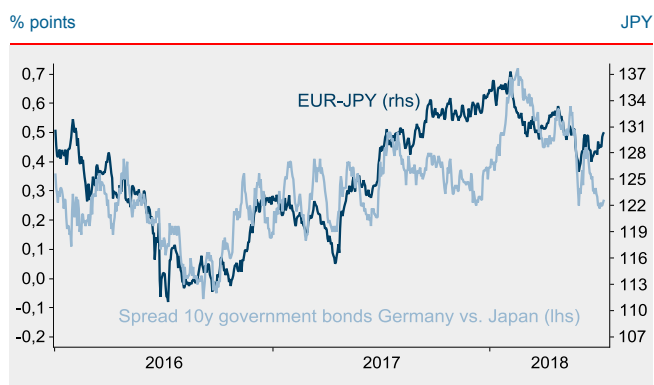
Trend: sideways

British politics is descending into chaos, but the pound sterling is showing only a mild reaction. After Prime Minister May asserted herself in the cabinet with the "soft" Brexit variant, the ministers Davis and Johnson resigned. On the one hand, the chances of a compromise with the EU are growing; on the other hand, a possible downfall of May could end in a disorderly Brexit. The political uncertainties could weigh on the pound for now. But because of the upcoming interest rate hike by the Bank of England, the euro-pound exchange rate should trade between 0.85 and 0.90.

Japanese yen, Norwegian krone and Swedish krona

Yield differences contradict euro-yen exchange rate

JPY



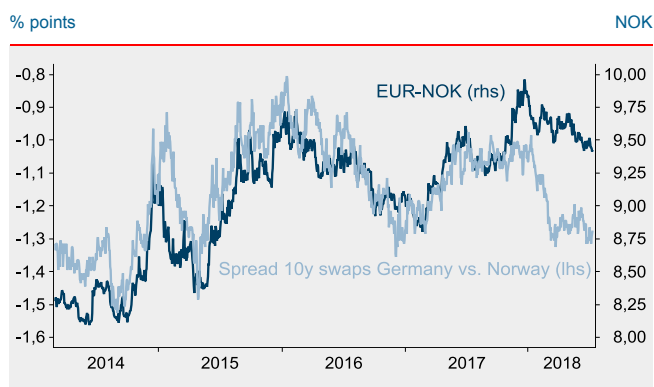
Sources: Macrobond, Helaba Research

Trend: appreciation against the euro

The Japanese yen weakened a little against the euro and the US dollar. The somewhat higher risk aversion did not help the yen. Japan's economic indicators improved, after the economy still shrank in the first quarter. Inflation remained quite low. The Bank of Japan will therefore maintain its expansionary policy. Still, the yield disadvantage against the euro lessened. This argues for a clearly lower euro-yen exchange rate. The trade conflict counteracts the US yield advantage, with the result that the dollar-yen exchange rate should pull back slightly.

Norway's yield advantage expands further

NOK



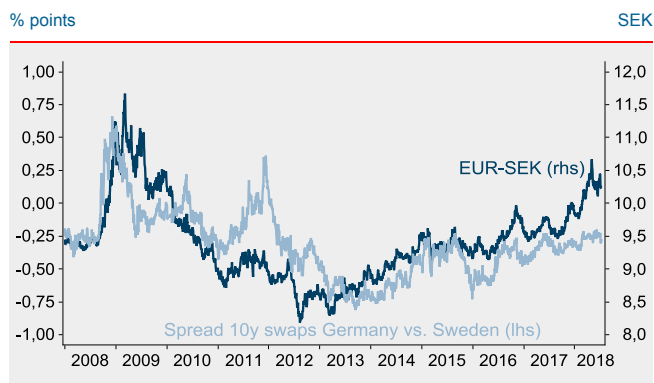
Sources: Macrobond, Helaba Research

Trend: appreciation

The Norwegian krone appreciated a little against the euro, with the euro-krone exchange rate trading around 9.4. The oil price rose and thus helped the krone. Norway's central bank hinted quite clearly at an interest rate hike in September. Inflation is picking up, growth is proving robust. The already high yield advantage against the euro expanded further. Against this backdrop, the appreciation of the krone was disappointing so far. However, the tailwind for the krone should continue, which means that eventually the euro-krone exchange rate will also decline noticeably.

Swedish krona with tailwind from monetary policy

SEK



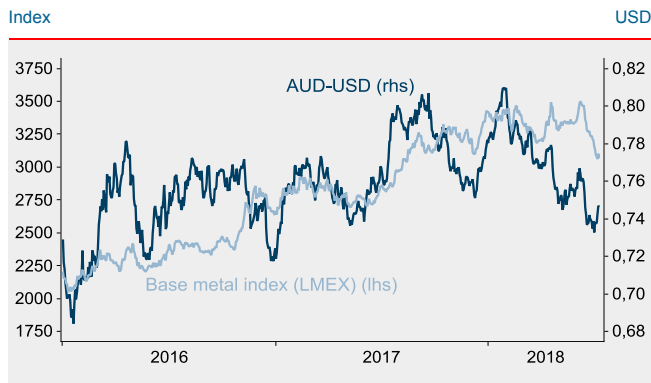
Sources: Macrobond, Helaba Research

Trend: appreciation

In spite of a temporary weakness, the Swedish krona barely changed on balance; the euro-krona exchange rate is trading around 10.25. Sweden's economy remains quite vigorous. Inflation accelerated slightly. Sweden's central bank therefore reaffirmed the prospect of a turnaround on interest rates by the end of the year and further steps in 2019. Sweden's yield advantage rose slightly and will probably expand further, once the central bank will finally let actions follow what it has long announced with words. The euro-krona exchange rate should decline noticeably.

Australian dollar, Canadian dollar and Chinese yuan

Decline in metals prices already anticipated



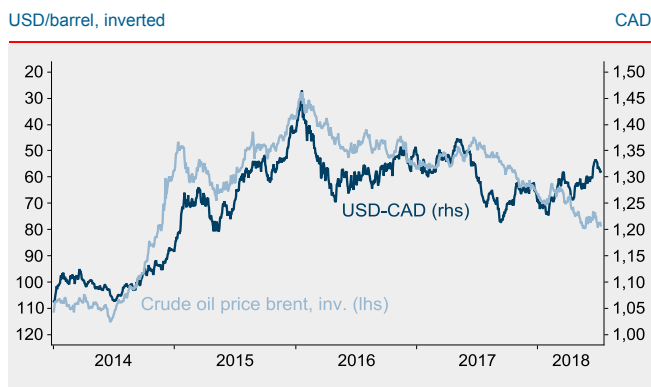
Sources: Macrobond, Helaba Research

AUD

Trend: appreciation

The Australian dollar depreciated against the euro and the US dollar. Concerns about the trade conflict weighed on the “Aussie”. Moreover, some commodity prices came under pressure. But Australia’s economy is still presenting a robust picture. Inflation is at a moderate level, which means that the central bank will hold off for now. The interest rate differences support the Australian currency against the euro. But the “Aussie” should gain the upper hand also against the US dollar should the concerns about trade and China ease.

High oil price as support for the “Loonie”



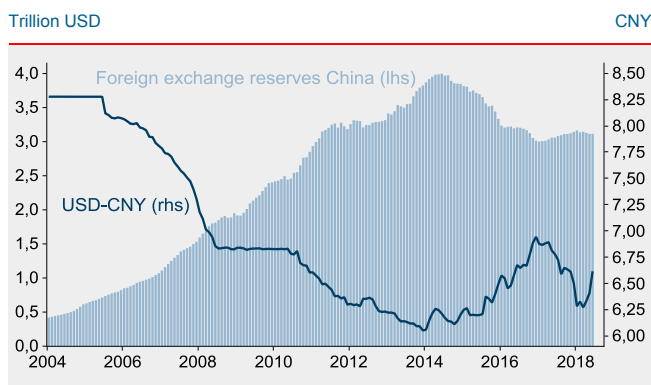
Sources: Macrobond, Helaba Research

CAD

Trend: appreciation against the euro

The Canadian dollar declined slightly – and at times even strongly – against the euro and the US dollar. The quarrel over NAFTA triggered by Trump eased, since the renegotiations were postponed for about six months. While Canada’s economic indicators were most recently mixed, growth overall is solid. Even if the rate of inflation stagnated, the Bank of Canada will make further interest rate hikes. Tailwind is also coming from the high oil price. The “Loonie” should appreciate slightly against the euro and the US dollar.

No signs of central bank intervention



Sources: Macrobond, Helaba Research

CNY

Trend: slight appreciation

The Chinese yuan weakened noticeably against the euro and the US dollar. The intensifying trade dispute with the USA – the first punitive tariffs have been imposed – weighed on China’s currency. China’s virtually unchanged currency reserves argue against a deliberate depreciation strategy. The likewise weaker Chinese stock market points to certain concerns. However, the economic data provide little reason to complain at the moment. The yuan depreciation should thus slowly run its course, and China’s currency should stabilize against the US dollar and the euro.

Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q3/2018	Q4/2018	Q1/2019	Q2/2019
vs. Euro	(vs. Euro, %)						
US dollar	2,2	0,3	1,17	1,15	1,15	1,20	1,20
Japanese yen	3,8	-0,5	130	125	123	125	125
British pound	0,4	-0,4	0,88	0,90	0,85	0,85	0,85
Swiss franc	0,5	-0,3	1,16	1,17	1,15	1,15	1,15
Canadian dollar	-2,0	-0,7	1,54	1,47	1,47	1,51	1,51
Australian dollar	-2,4	-1,6	1,57	1,47	1,47	1,50	1,50
Swedish krona	-4,2	-0,6	10,27	9,90	9,70	9,50	9,40
Norwegian krone	4,5	0,7	9,42	8,90	8,80	8,80	8,80
Chinese yuan	0,3	-2,8	7,78	7,48	7,48	7,68	7,68
vs. US-Dollar	(vs. USD, %)						
Japanese yen	1,5	-0,9	111	109	107	104	104
Swiss franc	-1,8	-0,7	0,99	1,02	1,00	0,96	0,96
Canadian dollar	-4,1	-1,0	1,31	1,28	1,28	1,26	1,26
Swedish krona	-6,4	-0,9	8,74	8,61	8,43	7,92	7,83
Norwegian krone	2,3	0,3	8,02	7,74	7,65	7,33	7,33
Chinese yuan	-1,9	-3,5	6,63	6,50	6,50	6,40	6,40
US-Dollar vs. ...	(vs. USD, %)						
British pound	-1,8	-0,8	1,33	1,28	1,35	1,41	1,41
Australian dollar	-4,5	-2,0	0,75	0,78	0,78	0,80	0,80

*10.07.2018

Sources: Bloomberg, Helaba Research ■