



US dollar

- Things were calm recently with currencies from industrialized countries, only the Japanese yen and the New Zealand dollar suffered noticeable losses. In the emerging markets, the Chinese yuan dropped especially, while the Mexican peso appreciated strongly.
- The euro-dollar exchange rate barely moved most recently. The economy and particularly the monetary policy are clearly supporting the US currency, the more as the ECB continues to delay its interest rate turnaround. However, the Trump government's policy limits the appreciation potential. In addition to rising debt, especially the trade conflict is considered as a burden for the US dollar. The US currency should gain only a little more, the euro-dollar exchange rate should trade around 1.15.
- Helaba Currency Forecasts

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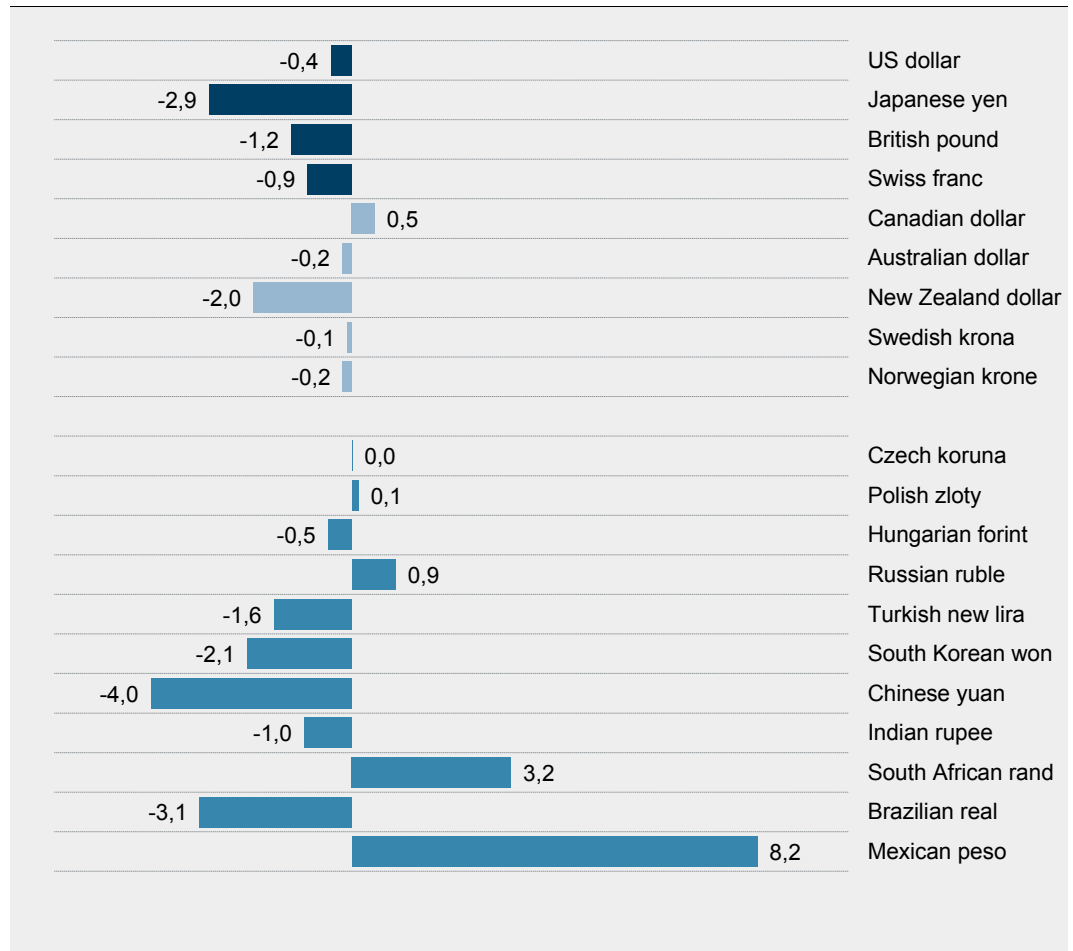
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Performance on a month-over-month basis

% vs. euro compared to the previous month (from 06/19 to 07/18/18)



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

Sources: Bloomberg, Helaba Research

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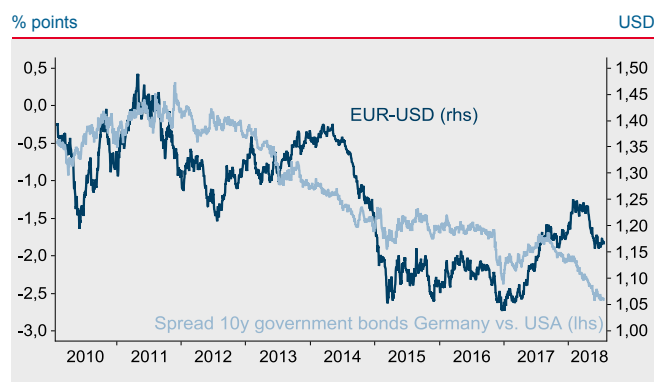
USD: Fed vs. Trump

You are lying on the beach or by the pool wondering how the financial markets are reacting to the current political developments? As far as the currency market is concerned: stay calm and relaxed. The euro-dollar exchange rate is trading at above 1.16, marginally higher than a month ago. The calm among the major currencies should continue for the time being.

Cyclical tailwind for the US dollar

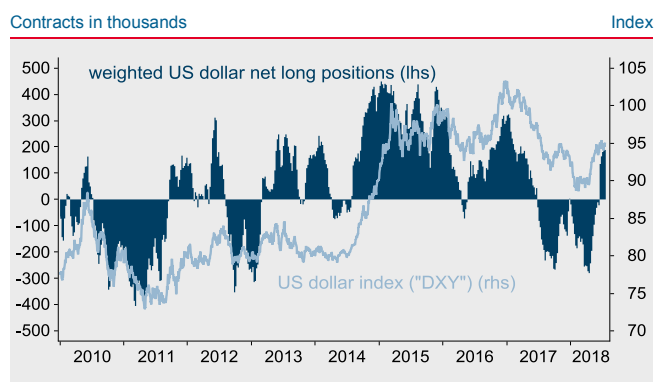
Donald Trump threw the continent into unrest on his European trip. In addition, the US government continues to threaten punitive tariffs on cars. Such tariffs have been imposed on US imports from China totalling 34 billion US dollars, in the near future the total will be raised to 50 billion. China has already taken countermeasures. In return, Trump has again threatened punitive tariffs on imports with a value of up to 200 billion US dollars. The trade conflict appears to be escalating. The trade barriers that have been put in place so far have not yet had any major impact on the economy overall. Especially in the US, the sentiment indicators have in fact improved. Growth in the second quarter was presumably quite robust. The tax cuts and higher government spending are thus having an effect, while the economic dynamic in the euro zone tended to slow down. Inflation in the US remains elevated, which means that the Federal Reserve will continue its course of interest rate hikes, something that Jerome Powell, the Chairman of the Federal Reserve, recently confirmed. The Fed is likely to take two more steps this year. With that, the short-term yield advantage of the US currency grows, especially since the ECB will carry out its turnaround on interest rates only in the second half of 2019. By contrast, the US yield advantage is stagnating on long-term yields. Although the monetary policy has certainly already been priced into the exchange rates to a considerable extent, it remains a positive factor for the US dollar.

US dollar with continuing clear yield advantage



Sources: Macrobond, Helaba Research

Speculators betting on instead of against the dollar



Sources: Macrobond, Helaba Research

Trade policy as a negative factor for the US dollar

Politics is one uncertainty factor. Most recently, the new Italian government was not quite so much the focus of attention. While risk premiums on Italian government bonds have declined, they are still at a significantly higher level than at the beginning of May. The trade conflict is currently more relevant. In theory, tariffs by the US should strengthen its own currency. This has in fact happened against the Chinese yuan. However, countermeasures by the trading partners are to be expected, and the US trade deficit is unlikely to improve significantly. Moreover, the protectionist attitude of the Trump government in principle indicates an interest in a dollar that is not too strong. The growing mountain of US debt and the confrontational foreign policy course do not buttress the role of the Greenback as the world's leading currency. Overall, Donald Trump's policy limits the potential for long-term appreciation. The high speculative selling positions against the US dollar that still existed a few months ago have become net bets on it. Accordingly, no additional demand can be expected from this side. On balance, however, the monetary policy tailwind for the US currency should still be sufficient and the euro-dollar exchange rate should fall to 1.15. For now, you can sit back in a deck chair and enjoy the summer.

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	3,1	-0,4	1,16	1,15	1,15	1,20	1,20
Japanese yen	3,0	-2,9	131	125	123	125	125
British pound	-0,3	-1,2	0,89	0,90	0,85	0,85	0,85
Swiss franc	0,6	-0,9	1,16	1,17	1,15	1,15	1,15
Canadian dollar	-1,6	0,5	1,53	1,47	1,47	1,51	1,51
Australian dollar	-2,3	-0,2	1,57	1,47	1,47	1,50	1,50
Swedish krona	-4,7	-0,1	10,32	9,90	9,70	9,50	9,40
Norwegian krone	3,5	-0,2	9,51	8,90	8,80	8,80	8,80
Chinese yuan	-0,3	-4,0	7,82	7,48	7,48	7,68	7,68
vs. US-Dollar	(vs. USD, %)						
Japanese yen	-0,2	-2,5	113	109	107	104	104
Swiss franc	-2,5	-0,4	1,00	1,02	1,00	0,96	0,96
Canadian dollar	-4,5	0,9	1,32	1,28	1,28	1,26	1,26
Swedish krona	-7,7	0,3	8,87	8,61	8,43	7,92	7,83
Norwegian krone	0,4	0,2	8,17	7,74	7,65	7,33	7,33
Chinese yuan	-3,2	-3,5	6,72	6,50	6,50	6,40	6,40
US-Dollar vs. ...	(vs. USD, %)						
British pound	-3,3	-0,8	1,31	1,28	1,35	1,41	1,41
Australian dollar	-5,3	0,2	0,74	0,78	0,78	0,80	0,80

*18.07.2018

Sources: Bloomberg, Helaba Research ■