Erste Group Research
Forex News | Currencies | US-Dollar, Yen, Swiss Franc
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Forex News

EURUSD – Data confirm appreciation potential of the US dollar
EURJPY – Yen weakens
EURCHF – Swiss franc should continue to decline moderately

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US trade policies unsettle markets

In July EURUSD by and large continued its trend of June and traded in a range from 1.16 to 1.18. Thus the consolidation phase continued – probably driven by the summer doldrums. Another important factor was the news flow on US tariffs on imports from China and EU, which changed on a daily basis, and triggered uncertainty with respect to the potential impact on the economies of the US and the euro zone.

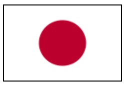
We are sticking to our assessment that the dollar has further appreciation potential and recent economic data releases reinforce our conviction. Data on GDP growth in the second quarter are not available yet, but monthly indicators suggest that a doubling of the (modest) growth rate posted in the first quarter should be expected. The impact of tax cuts and higher public spending is becoming obvious. We do not expect that the trade disputes will result in a significant slowdown in US economic growth, although a potential escalation cannot be ruled out. We expect two more rate hikes in the US this year, followed by further hikes next year. At the same time there will not be any noteworthy speculation on rate hikes in the euro zone for the time being in our opinion, as the ECB has just committed itself at its June meeting to leave administered interest rates unchanged at least through the summer of 2019.

EURUSD – since 2000

Source: Bloomberg, Erste Group Research

EURUSD – last two years

Source: Bloomberg, Erste Group Research



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JPY – Yen weakens

After the political upheaval in Italy had slightly cooled off, the yen lost ground against the euro. A relatively muted trend in inflation relative to the euro zone since April had already supported the yen (on account of real yield differentials) earlier. In addition, relative trends in producer prices in Japan and the euro zone supported the yen moderately since the beginning of the year. However, the inflation forecasts of BoJ and ECB for 2019 on the other hand point to a strengthening of the euro next year. In view of disappointing developments on the inflation front (+0.7% y/y in May) as well as weakening economic growth (+1.1% y/y in Q1 2018), the BoJ stressed at its last meeting that it remains convinced that it is essential that it maintain an expansionary monetary policy. These statements should not change significantly at the next meeting (30-31 July) either, even though the first leading indicators of Japan's economy released in July have shown improvement.

As we continue to forecast a gradual increase in the yields on long term German government bonds, the yen should be expected to weaken against the euro in coming months, provided the BoJ does not materially alter its monetary policy. However, the muted trend in Japanese inflation represents an element of uncertainty for this forecast. From a technical perspective the Euro-Yen cross rate is at the lower end of a trading range between 129.5 and 132. The Bloomberg analyst consensus is calling for EURJPY to trade at 130 by Q4 2018.

EURJPY – since 2000

Source: Bloomberg, Erste Group Research

EURJPY – since 2016

Source: Bloomberg, Erste Group Research

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EURCHF – The Swiss franc should continue to decline moderately

As the initial commotion over the new government of Italy has gradually petered out and risk premiums on Italian government bonds decreased, the Swiss franc weakened slightly against the euro. Despite simmering trade disputes we believe that market participants will increasingly focus on fundamentals again. At its meeting in June the Swiss National Bank left the target range for three month Libor between -1.25% and -0.25%, while interest on sight deposits with the central bank was kept unchanged at a negative rate of -0.75%. According to the SNB, negative interest rates in conjunction with the central bank's willingness to intervene in foreign exchange markets remain essential due to the fragile situation in foreign exchange markets. The fact that the rate of change of producer prices (excluding energy) in Switzerland has caught up with the trend in the euro zone is favorable for the euro from a fundamental perspective.

Uncertainty surrounding the ongoing trade dispute has eased somewhat over the past weeks, which has supported the euro against the Swiss franc. As long as protectionist measures and/or political tensions don't escalate, we expect the global economic upswing to continue. In this environment we are forecasting a gradual, moderate depreciation of the Swiss franc vs. the euro to around 1.17 by Q4 2018. However, a minimum exchange rate is no longer enforced. Should certain risks materialize (e.g. geopolitical conflicts, intensification of the global trade conflict, or turmoil in the EU), the Swiss franc could once again appreciate strongly and rapidly.

EURCHF – since 2000

Source: Bloomberg, Erste Group Research

EURCHF – last two years

Source: Bloomberg, Erste Group Research

Exchange rate forecasts[1]

Currency	current	Sep.18	Dec.18	Mar.19	Jun.19
EURUSD	1.17	1.14	1.13	1.15	1.16
EURCHF	1.16	1.16	1.17	1.18	1.19

EURJPY	current	Sep.18	Dec.18	Mar.19	Jun.19
Bloomberg Survey		130.0 ↑	131.0 ↑	132.0	134.0 ↑
Spot/Forward	129.8	130.0	129.9	129.9	129.9

Source: Bloomberg, Erste Group Research

Interest rate forecasts

	current	Sep.18	Dec.18	Mar.19	Jun.19
3M Euribor	-0.32	-0.30	-0.30	-0.30	-0.30
3M Libor US	2.33	2.40	2.70	2.90	3.20
3M Libor CH	-0.72	-0.75	-0.75	-0.75	-0.75

Source: Bloomberg, Erste Group Research

In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.

[1] By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator of future performance

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