

Forex News

US dollar, Japanese yen, Swiss franc

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USD: Uncertain environment speaks for dollar

Representatives of both the ECB and the US Fed have recently emphasized the risks to the economy and thus fueled market expectations for monetary easing. However, the Fed's statements had more weight for the markets and the dollar weakened somewhat. All in all, however, the market remains directionless. We prefer the dollar in the coming months. The high expectations of the markets for interest rate cuts in the US are likely to be disappointed, as the economic outlook should improve. Our expectation is based largely on the assumption that the trade conflict with China will ease, although the outcome of this situation is admittedly uncertain. In the autumn, the focus should then be on Brexit, where we do not expect a negotiated solution, which speaks in favor of the dollar. Only when the situation has calmed down should the euro be able to slowly appreciate towards the end of the year.

JPY: Yen stable against the euro

In June, the yen fluctuated against the euro in a stable range between 121 and 123. At its meeting at the end of June, the Japanese central bank made no changes to its loose monetary policy orientation in order to raise inflation towards 2% as soon as possible. Nevertheless, Japan's inflation remained at around 0.8% y/y in May. Over the past 2 years, Japan's inflation averaged around +0.8%, well below that of the euro zone (+1.6%). From a fundamental point of view, this has favoured the firming pressure of the yen. The consensus on Bloomberg expects the euro to gain somewhat against the yen to 124 in Q4 2019.

CHF: firming pressure continues

Persistently weak leading indicators and the ongoing trade dispute between the USA and China have favoured the continued strengthening of the Swiss franc against the euro. At its last meeting, the SNB replaced the target range for the 3-month Libor with the SNB key interest rate because the future of the Libor is no longer secure. The SNB key interest rate was set at -0.75%, which means that the "degree of expansion" of the monetary policy orientation remains unchanged. Due to the recent political developments in the United Kingdom, we expect a hard brexit at the end of October. This should increase the firming pressure of the Swiss franc in Q4 2019. We therefore expect the EURCHF exchange rate to reach a level of around 1.10 at the end of Q3 2019. Should further geopolitical crises worsen acutely (trade dispute, Iran), the franc could, as recently happened, quickly strengthen against the euro at any time.

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Note: Past performance is not necessarily indicative of future results.

Currency overview

EUR/USD – last two years



Source: Bloomberg, Erste Group Research

EUR/USD – since 2000



Source: Bloomberg, Erste Group Research

EUR/JPY – last two years



Source: Bloomberg, Erste Group Research

EUR/JPY – since 2000



Source: Bloomberg, Erste Group Research

EUR/CHF – last two years



Source: Bloomberg, Erste Group Research

EUR/CHF – since 2000



Source: Bloomberg, Erste Group Research

Exchange rate forecasts¹

Currency	current	Sep.19	Dec.19	Mar.20	Jun.20
EURUSD	1.14	1.10	1.13	1.15	1.18
EURCHF	1.11	1.10	1.11	1.12	1.13
EURJPY	current	Sep.19	Dec.19	Mar.20	Jun.20
Bloomberg Survey		122.0	124.0	125.0	125.0
Spot/Forward	122.3	122.4	122.5	122.5	122.5

Source: Bloomberg, Erste Group Research

Interest rate forecasts

	current	Sep.19	Dec.19	Mar.20	Jun.20
3M Euribor	-0.34	-0.30	-0.30	-0.30	-0.30
3M Libor US	2.33	2.70	2.70	2.70	2.70
3M Libor CH	-0.73	-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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