

Forex News

US dollar, Japanese yen, Swiss franc

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USD: environment continues to support the dollar

The coming weeks will decide how Brexit will proceed. There are probably now only two alternatives remaining: another postponement of the withdrawal date or withdrawal without an agreement. We expect the second. Once this outcome becomes obvious, the dollar could well gain further. Once the situation eases, however, the EURUSD should rise again to 1.10 by the end of the year. If, on the other hand, there is a new deadline, for example because new elections are to be held in the United Kingdom, the euro should rise only slightly and probably only temporarily, as the risk of a hard break would still exist. The recent announcement of the initiation of an impeachment procedures against President Trump – even if it has little chance of success – is another argument for why the dollar could continue to appreciate for the time being.

JPY: yen eases slightly

In September, the yen weakened slightly against the euro, to the level of 120. At its meeting in September, the Japanese central bank confirmed its willingness to carry out further monetary easing if a further slowdown in the global economy were to jeopardize the price stability target. Japan's inflation fell to +0.5% y/y in August. Over the past two years, Japan's inflation averaged around +0.8%, well below that of the Eurozone (+1.6%). From a fundamental point of view, this has favored firming pressure on the yen. For a trend reversal of the current strength of the yen against the euro, the outlook for the global economy would have to brighten. The consensus on Bloomberg expects the euro to strengthen against the yen, to 116 in 4Q19.

CHF: increased volatility

The euro-franc exchange rate traded with high volatility in September and recently levelled off at 1.084, largely unchanged. Although the ECB announced substantial easing of monetary policy on September 12, the SNB did not adjust its monetary policy course at its meeting on September 19. Given the political developments in the United Kingdom, we expect hard Brexit at the end of October. This should further increase the firming pressure on the Swiss franc, especially at the end of October. Should other geopolitical crises escalate acutely (trade dispute, Italy), the franc could, as recently happened, quickly strengthen against the euro at any time.

Major Markets & Credit Research

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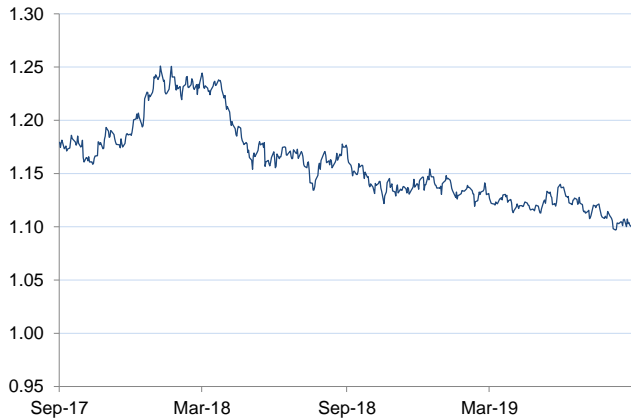
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Note: Past performance is not necessarily indicative of future results.

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	Dec.19	Mar.20	Jun.20	Sep.20
EURUSD	1.10	1.10	1.12	1.15	1.15
EURCHF	1.08	1.09	1.1	1.11	1.12
EURJPY	current	Dec.19	Mar.20	Jun.20	Sep.20
Consensus Forecasts		116.0	118.0	119.0	120.0
Spot/Forward	118.0	118.0	118.0	118.0	118.0

Source: Bloomberg, Erste Group Research

Interest rate forecasts

	current	Dec.19	Mar.20	Jun.20	Sep.20
3M Euribor	-0.41	-0.50	-0.50	-0.50	-0.50
3M Libor US	2.11	1.80	1.80	1.80	1.80
3M Libor CH	-0.76	-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.

Erste Group Research

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