Erste Group Research Forex News | Major Markets | US-Dollar, Yen, Swiss Franc 21. January 2020



Forex News

US dollar, Japanese yen, Swiss franc

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USD: Euro should gain

Over the past few weeks, the EURUSD has been hovering in a relatively narrow range around 1.11. With a stable economy in the US and so far only modest indications of a recovery in the Eurozone, the market is not receiving any clear guidance. However, the global environment is benefiting from the easing of the trade conflict between the US and China and the hard Brexit that has been averted for the time being. The signs of a recovery in the global economy are becoming stronger and stronger and this should ultimately spill over into the Eurozone. The euro should benefit from this and appreciate. However, it should not be much, as neither the ECB nor the US Fed should set clear monetary policy guidelines.

JPY: Yen weakness should continue

The yen has depreciated slightly against the euro since the beginning of the year. At its meeting at the end of December, the Japanese central bank (BoJ) left its communication unchanged: if necessary, further interest rate cuts and, in addition, the outlook was confirmed (interest rates at current levels or lower for as long as necessary). The signs of a positive turnaround in the global economy have further improved with the signing of the Phase 1 agreement between the US and China. In this environment, we believe that the yen should continue to weaken against the euro in the coming months. However, the consensus on Bloomberg expects the yen a bit firmer at 121 in 2Q20.

CHF: several factors support the franc

Political turmoil within the Eurozone (concern about the end of the Italian government after the regional elections on January 26) and a widening of the inflation differential in favor of the franc supported, among other things, the strengthening of the franc. In addition, the US recently placed Switzerland on the currency manipulator watch list, which supported the strength of the franc even more. In view of the development of the SNB's currency reserves, we assume that the SNB has been intervening in the market since August 2019 to counteract the strengthening of the franc. However, the extent of current interventions is much smaller compared with the phase between 2015 and 2017 (after the SNB lifted the minimum barrier of the exchange rate at the beginning of 2015). Due to these developments, we are lowering our short- and medium-term forecasts for the EURCHF exchange rate. However, since based on our assessment the franc is overvalued at its current level, we continue to expect a gradual weakening of the franc against the euro. At the end of the first guarter of 2020, we now expect the EURCHF to be at 1.08 (previously 1.12). However, should geopolitical crises come to a head (Iran, Italy), the CHF could continue to strengthen strongly against the euro, as has recently happened.

Major Markets & Credit Research Gudrun Egger, CEFA (Head)

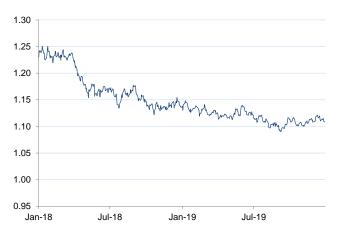
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Note: Past performance is not necessarily indicative of future results.

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Currency overview

EUR/USD - last two years

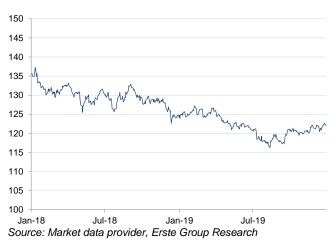


Source: Market data provider, Erste Group Research

EUR/USD - since 2000



Source: Market data provider, Erste Group Research



EUR/JPY - last two years

EUR/CHF - last two years



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EUR/JPY - since 2000



Source: Market data provider, Erste Group Research

EUR/CHF - since 2000



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Exchange rate forecasts¹

Currency	current	Mar.20		Jun.20		Sep.20		Dec.20	
EURUSD	1.11	1.15		1.15		1.15		1.15	
EURCHF	1.07	1.08	Ļ	1.09	Ļ	1.10	Ļ	1.11	Ļ
EURJPY	current	Mar.20		Jun.20		Sep.20		Dec.20	
Bloomberg Survey		119.0		121.0		122.0		121.5	
Spot/Forward	122.0	1.0		121.9		121.9		121.9	

Source: Market data provider, Erste Group Research

Interest rate forecasts

	current	Mar.20	Jun.20	Sep.20	Dec.20
3M Euribor	-0.39	-0.40	-0.40	-0.40	-0.40
3M Libor US	1.82	1.90	1.90	1.90	2.10
3M Libor CH	-0.68	-0.75	-0.75	-0.75	-0.75

Source: Market data provider, 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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