

Forex News

EURUSD - Trump's election triggers dollar appreciation

EURJPY - Yen weakens markedly

EURCHF - no significant depreciation expected



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Limited additional appreciation potential for the US dollar

In the wake of Donald Trump's victory in the US presidential election, the US dollar has firmed significantly. In conjunction with the Republican majority in both chambers of Congress, inflation risks have increased. This is because Trump's program includes tax cuts, which will boost demand, higher tariffs, which would likely be passed on by importers, as well as the deportation of illegal immigrants, which would lead to a decrease in the workforce. Since the US has already achieved full employment, these measures represent a real risk for the pace of inflation and with that a risk of larger rate hikes by the Fed. This has in turn triggered the above mentioned gains in the dollar.

The markets have run well ahead of these developments though, as Donald Trump will only be sworn in on January 20 and the extent to which he will be able to implement his program is currently difficult to predict. After all, Trump's plans don't enjoy unanimous support among Republican lawmakers either. We have raised our target for the dollar in response to Trump's election victory. At the same time we expect the dollar to strengthen only temporarily. The US currency's valuation is already high, and additional significant appreciation would alarm the Fed, which could then respond by reducing the extent of future rate hikes. Moreover, we expect the ECB to pursue a less expansionary monetary policy next year, which will tend to support the euro. All in all, the US dollar may still rally somewhat in the short term, but in the course of 2017 we expect it to weaken slightly toward the EURUSD 1.10 level.

EURUSD – since 2000

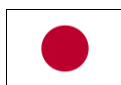


Source: Bloomberg, Erste Group Research

EURUSD – since July 2011



Source: Bloomberg, Erste Group Research



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JPY – Japanese yen weakens significantly

Recently there have been no significant changes with respect to the Bank of Japan's monetary policy stance. In order to achieve its inflation target of 2% as soon as possible, the BoJ has implemented negative interest rates, QE (around JPY 80 trn. per year), as well as control of the yield curve. The BoJ has moreover pledged to let inflation overshoot, until it is sustainable and stable above its 2% target. Should the rise in US bond yields continue, control of the yield curve with the aim of keeping the yield on 10 year Japanese government bonds close to 0% could become an ever more daunting challenge for the BoJ.

Since November the yen has weakened significantly against the euro. In an environment of globally rising yields this can be justified on fundamental grounds by the BoJ's commitment to keep 10 year JGB yields at 0%. Based on this, a further surge in global bond yields should lead to more weakness in the yen, unless the BoJ decides to modify its policy of controlling the yield curve.

From a technical perspective, the cross rate has clearly broken out from its previous trading range (112-116) to the upside. The 50 and 100 day moving averages have in the meantime turned up as well and EURJPY currently trades significantly above them. A further depreciation of the yen against the euro should therefore be expected based on the technical situation. According to our analysis, the next important resistance level is at around 127, while the 120 level should provide downside support. The analyst consensus currently expects the cross rate to stabilize at levels close to EURJPY 117 by the end of 2017.

EURJPY – since 2000



Source: Bloomberg, Erste Group Research

EURJPY – since July 2011



Source: Bloomberg, Erste Group Research



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EURCHF – no significant depreciation expected

In mid November EURCHF has reached its year-to-date low of 1.070. This was mainly driven by a change in expectations regarding monetary policy after Donald Trump's victory in the US presidential election (see p.1). Since then the euro has regained some of its value against the Swiss currency, trading around 1.08 Swiss francs per euro in recent days.

On December 2 the State Secretariat for Economic Affairs (SECO) has released its estimate of third quarter GDP and its components. According to SECO, Switzerland's real gross domestic product has remained nearly unchanged in Q3 compared to the previous quarter. Consumer spending has provided very little impetus to growth. Construction spending and investment in capital equipment have supported GDP growth, while the trade balance in goods and services has contributed negatively to growth. Compared to the 3rd quarter of 2015 real GDP growth amounted to 1.3%. For 2016 as a whole, SECO expects GDP growth of 1.5%. In 2017 the growth rate of the Swiss economy is expected to accelerate to 1.8%.

Fundamental factors currently indicate a moderate easing of appreciation pressures on the Swiss franc. Nevertheless, uncertainties in global financial markets remain too pronounced at the moment to expect a "safe haven" currency such as the Swiss franc to weaken significantly. The SNB stresses consistently that it "...will remain active in foreign exchange markets as necessary", and we expect the SNB to intervene in foreign exchange markets should strong appreciation pressures emerge. It cannot be assumed though that the central bank will try to keep the exchange rate at a specific level with its interventions. In our assessment EURCHF is likely to fluctuate between 1.08 and 1.09 in coming months. Over the coming year we are forecasting a slight depreciation in the Swiss franc to around 1.12 Swiss francs per euro until Q4 2017. However, a minimum exchange rate is no longer enforced. Should certain risks materialize (e.g. geopolitical conflicts, turmoil in the EU), the Swiss franc could once again appreciate rapidly and strongly.

EURCHF – since 2000



Source: Bloomberg, Erste Group Research

EURCHF – since July 2011



Source: Bloomberg, Erste Group Research

Exchange rate forecasts¹

	current	Mar.17	Jun.17	Sep.17	Dec.17
EURUSD	1,08	1,06	1,08	1,10	1,12
EURCHF	1,08	1.09	1.1	1.11	1.12
EURJPY	current	Mar.17	Jun.17	Sep.17	Dec.17
Bloomberg Survey		116,0	117,0	118,0	117,0
Spot/Forward	122,9	121,0	121,0	121,0	121,0

Source: Bloomberg, Erste Group Research

Interest rate forecasts

	current	Mar.17	Jun.17	Sep.17	Dec.17
3M Euribor	-0,32	-0,30	-0,30	-0,30	-0,30
3M Libor US	0,95	1,19	1,44	1,70	1,80
3M Libor CH	-0,75	-0,75	-0,75	-0,75	-0,50

Source: Bloomberg, Erste Group Research

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

Erste Group Research

Forex News | Currencies | US-Dollar, Yen, Swiss Franc

December 07, 2016

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Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com