

## Forex News

EURUSD - Support at 1.05 should be tested again

EURJPY - Yen consolidates in new trading range

EURCHF – Swiss franc remains strong



Analyst:  
**Rainer Singer**  
[rainer.singer@erstegroup.com](mailto:rainer.singer@erstegroup.com)

### US dollar could strengthen in the short term, we are skeptical about its medium term prospects

In December EURUSD briefly declined to levels below 1.05, in the process breaking support that had held for more than two years. The move was sparked by Donald Trump winning the US presidential election and the associated rise in expectations for economic growth and hence interest rates. Since then a counter-trend move has set in, likely triggered by profit taking, but surely also driven by the fact that very little was heard from the incoming administration regarding the specifics of its economic plans (tax cuts). Overall, US economic data were good, but they were not strong enough to justify the high levels the dollar had previously reached.

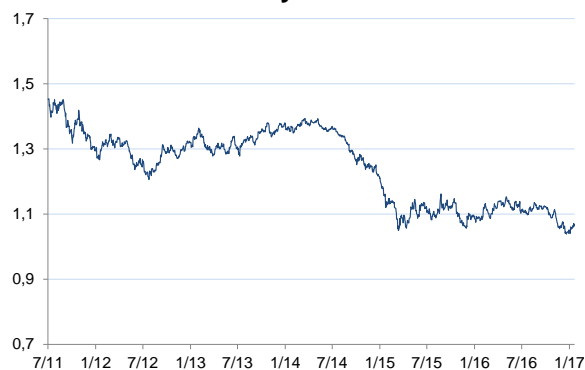
*We expect the US dollar to strengthen in the short term, with the market driving EURUSD down once again. However, we are skeptical regarding the sustainability of such a move. The dollar trades already at a very lofty valuation, based on valuation criteria such as the yield differentials between short term German and US government notes and their expected future trends. We also believe that the Federal Reserve would regard a strong rally in the dollar (toward parity with the euro) as having a dampening effect on economic growth and that it would signal this to the markets. Declining interest rate expectations would then deprive the dollar's appreciation of its foundation. The risk to our forecast consists of the new government passing economic stimulus measures of a magnitude that clearly boosts inflation risks and forces the Fed to act quickly. In that case a sustained and substantial rally in the dollar should be expected.*

**EURUSD – since 2000**

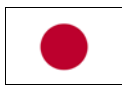


Source: Bloomberg, Erste Group Research

**EURUSD – since July 2011**



Source: Bloomberg, Erste Group Research



Analyst:

**Gerald Walek**

gerald.walek@erstegroup.com

**JPY – yen consolidates in new trading range**

The Bank of Japan announced no noteworthy changes to monetary policy at its last meeting (20. Dec. 2016). In order to reach its inflation target of 2% as soon as possible, the BoJ continues to rely on negative interest rates, QE (approx. JPY 80 trn. per year), as well as control of the yield curve. Moreover, the BoJ has pledged to overshoot its inflation objective until the 2% target is exceeded in sustainable and stable fashion. Should yields in the US continue to rise in line with our expectations, control of the yield curve in order to hold the yield on 10-year Japanese government bonds (JGBs) at a level of approx. 0% could become an increasingly difficult challenge for the BoJ. 10-year JGBs are already trading in a range of 0.05% to 0.1% since mid November.

*After a sizable decline until mid December of last year, the euro-yen cross rate has settled into a very tight trading range between 121 and 123. In view of the BoJ's intention to keep the yield on 10-year government bonds at 0%, we expect the yen to lose ground in the event of a global surge in bond yields. Conversely, should bond yields in the rest of the world decrease, the yen should strengthen.*

*Technically the EURJPY cross has established a foothold above the 120 level. The 50- and 100-day moving averages are rising, signaling a continuing uptrend. Thus, from a technical perspective a further depreciation of the yen against the euro over the medium term should be expected. In the short term the upside is likely to be capped by the next important resistance level around 123, while the 120 level should provide downside support. The analyst consensus is calling for a stabilization of the cross rate at a level of approx. EURJPY 121 by the end of 2017.*

**EURJPY – since 2000**

Source: Bloomberg, Erste Group Research

**EURJPY – since July 2011**

Source: Bloomberg, Erste Group Research



Analyst:

**Margarita Grushanina**

margarita.grushanina@erstegroup.com

**EURCHF – the Swiss franc remains strong**

After strengthening noticeably in October and November (triggered by Donald Trump's victory in the US presidential election) and a period of heightened volatility in the first half of December, the Swiss franc has remained strong over the past month, trading at approx. 1.07 per euro.

In its monetary policy assessment of December 15, the Swiss National Bank has left three month Libor at an unchanged target range of -1.25% to -0.25%, and the interest rate on sight deposits with the National Bank at -0.75%. The SNB also revised its conditional inflation forecast slightly downward compared to September. The SNB expects an inflation rate of 0.1% in 2017 compared to 0.2% according to the September forecast. The projection for 2018 was lowered from 0.6% to 0.5%. The forecast is based in the assumption that three month Libor remains at -0.75% over the entire forecast horizon.

*Fundamental factors currently indicate no significant easing of appreciation pressures on the Swiss franc. With the revision of the SNB's inflation forecast, the inflation differential between Switzerland and the euro zone is widening still further. Moreover, uncertainty in global financial markets remains pronounced. As a result, the Swiss franc continues to be a highly attractive safe haven currency, despite negative interest rates. The SNB emphasizes over and over again that the Swiss franc remains greatly overvalued and that it "...will be active in the foreign exchange markets as necessary". Taking into account the fundamental data as well as the situation in the financial markets, we have revised our forecast for EURCHF slightly downward. According to our new estimate, EURCHF should fluctuate between 1.07 and 1.08 in the coming months. Over the remainder of the year we are forecasting a moderate decline in the Swiss franc to around 1.11 francs per euro by 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 appreciate rapidly and strongly again.*

**EURCHF – since 2000**

Source: Bloomberg, Erste Group Research

**EURCHF – since July 2011**

Source: Bloomberg, Erste Group Research

### Exchange rate forecasts<sup>1</sup>

	current	Mar.17	Jun.17	Sep.17	Dec.17
<b>EURUSD</b>	1,07	1,06	1,08	1,10	1,12
<b>EURCHF</b>	1,07	1,08	1,09	1,1	1,11
<b>EURJPY</b>	current	Mar.17	Jun.17	Sep.17	Dec.17
<b>Bloomberg Survey</b>		121,0	121,0	122,0	123,0
<b>Spot/Forward</b>	122,5	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
<b>3M Euribor</b>	-0,33	-0,30	-0,30	-0,30	-0,30
<b>3M Libor US</b>	1,03	1,19	1,44	1,70	2,00
<b>3M Libor CH</b>	-0,73	-0,75	-0,75	-0,75	-0,50

Source: Bloomberg, Erste Group Research

<sup>1</sup> 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  
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## Contacts

### Group Research

#### Head of Group Research

Friedrich Mostböck, CEFA +43 (0)5 0100 11902

#### Major Markets & Credit Research

Head: Gudrun Egger, CEFA +43 (0)5 0100 11909

Ralf Burchert, CEFA (Agency Analyst) +43 (0)5 0100 16314

Hans Engel (Senior Analyst Global Equities) +43 (0)5 0100 19835

Christian Enger, CFA (Covered Bonds) +43 (0)5 0100 84052

Margarita Grushanina (Economist AT, CHF) +43 (0)5 0100 11957

Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183

Stephan Lingnau (Global Equities) +43 (0)5 0100 16574

Carmen Riefler-Kowarsch (Covered Bonds) +43 (0)5 0100 19632

Rainer Singer (Senior Economist Euro, US) +43 (0)5 0100 17331

Bernadett Povaszai-Römhild (Corporate Bonds) +43 (0)5 0100 17203

Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641

Gerald Walek, CFA (Economist Euro) +43 (0)5 0100 16360

Katharina Böhm-Klamt (Quantitative Analyst Euro) +43 (0)5 0100 19632

#### Macro/Fixed Income Research CEE

Head CEE: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357

Zoltan Arokszállasi, CFA (Fixed income) +43 (0)5 0100 18781

Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356

#### CEE Equity Research

Head: Henning Eßkuchen +43 (0)5 0100 19634

Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420

Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523

Vera Sutedja, CFA, MBA (Telecom) +43 (0)5 0100 11905

Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344

Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343

Martina Valenta, MBA (Real Estate) +43 (0)5 0100 11913

#### Editor Research CEE

Brett Aarons +420 956 711 014

#### Research Croatia/Serbia

Head: Mladen Dodig (Equity) +381 11 22 09178

Head: Alen Kovac (Fixed income) +385 72 37 1383

Anto Augustinovic (Equity) +385 72 37 2833

Milan Deskar-Skrbic (Fixed income) +385 72 37 1349

Magdalena Dolenec (Equity) +385 72 37 1407

Ivana Rogic (Fixed income) +385 72 37 2419

Davor Spoljar, CFA (Equity) +385 72 37 2825

#### Research Czech Republic

Head: David Navratil (Fixed income) +420 956 765 439

Head: Petr Bartek (Equity) +420 956 765 227

Jiri Polansky (Fixed income) +420 956 765 192

Pavel Smolik (Equity) +420 956 765 434

Jan Sumbera (Equity) +420 956 765 218

Roman Sedmera (Fixed income) +420 956 765 391

Jana Urbankova (Fixed income) +420 956 765 456

#### Research Hungary

Head: József Miró (Equity) +361 235 5131

Gergely Ürmösy (Fixed income) +361 373 2830

András Nagy (Equity) +361 235 5132

Orsolya Nyeste (Fixed income) +361 268 4428

Tamás Pletser, CFA (Oil&Gas) +361 235 5135

#### Research Poland

Head: Magdalena Komaracka, CFA (Equity) +48 22 330 6256

Marek Czachor (Equity) +48 22 330 6254

Tomasz Duda (Equity) +48 22 330 6253

Mateusz Krupa (Equity) +48 22 330 6251

Karol Brodziński (Equity) +48 22 330 6252

#### Research Romania

Head: Mihai Caruntu (Equity) +40 3735 10427

Head: Dumitru Dulgheru (Fixed income) +40 3735 10433

Chief Analyst: Eugen Sinca (Fixed income) +40 3735 10435

Dorina Ilasco (Fixed Income) +40 3735 10436

#### Research Slovakia

Head: Maria Valachyova, (Fixed income) +421 2 4862 4185

Katarina Muchova (Fixed income) +421 2 4862 4762

#### Research Turkey

Umut Ozturk (Equity) +90 212 371 25 30

Oguzhan Evranos (Equity) +90 212 371 25 42

### Treasury - Erste Bank Vienna

#### Group Markets Retail Sales

Head: Christian Reiss +43 (0)5 0100 84012

#### Markets Retail a. Sparkassen Sales AT

Head: Markus Kaller +43 (0)5 0100 84239

#### Equity a. Fund Retail Sales

Head: Kurt Gerhold +43 (0)5 0100 84232

#### Fixed Income a. Certificate Sales

Head: Uwe Kolar +43 (0)5 0100 83214

#### Markets Corporate Sales AT

Head: Christian Skopek +43 (0)5 0100 84146

#### Fixed Income Institutional Sales

#### Group Markets Financial Institutions

Head: Manfred Neuwirth +43 (0)5 0100 84250

#### Bank and Institutional Sales

Head: Jürgen Niemeier +49 (0)30 8105800 5503

#### Institutional Sales Western Europe AT, GER, FRA, BENELUX

Head: Thomas Almen +43 (0)5 0100 84323

Charles-Henry de Fontenilles +43 (0)5 0100 84115

Marc Pichler +43 (0)5 0100 84118

Rene Klasen +49 (0)30 8105800 5521

Dirk Seefeld +49 (0)30 8105800 5523

Bernd Bollhof +49 (0)30 8105800 5525

#### Bank and Savingsbanks Sales

Head: Marc Friebertshäuser +49 (0)711 810400 5540

Sven Kienzle +49 (0)711 810400 5541

Michael Schmotz +43 (0)5 0100 85542

Ulrich Inhofner +43 (0)5 0100 85544

Martina Fux +43 (0)5 0100 84113

Michael Konczer +43 (0)5 0100 84121

Klaus Vosseler +49 (0)711 810400 5560

Andreas Goll +49 (0)711 810400 5561

Mathias Gindele +49 (0)711 810400 5562

#### Institutional Sales CEE and International

Head: Jaromir Malak +43 (0)5 0100 84254

#### Central Bank and International Sales

Head: Margit Hraschek +43 (0)5 0100 84117

Christian Kössler +43 (0)5 0100 84116

Bernd Thaler +43 (0)5 0100 84119

#### Institutional Sales PL and CIS

Pawel Kielek +48 22 538 6223

Michal Jarmakowicz (Fixed Income) +43 50100 85611

#### Institutional Sales Slovakia

Head: Peter Kniz +421 2 4862 5624

Monika Smelikova +421 2 4862 5629

#### Institutional Sales Czech Republic

Head: Ondrej Cech +420 2 2499 5577

Milan Bartos +420 2 2499 5562

Barbara Suvadova +420 2 2499 5590

#### Institutional Asset Management Sales

#### Czech Republic

Head: Petr Holecsek +420 956 765 453

Martin Perina +420 956 765 106

Petr Valenta +420 956 765 140

David Petracek +420 956 765 809

#### Institutional Sales Croatia

Head: Antun Buric +385 (0)7237 2439

Željko Pavičić +385 (0)7237 1494

Ivan Jelavic +385 (0)7237 1638

#### Institutional Sales Hungary

Attila Hollo +36 1 237 8209

Borbala Csizmadia +36 1 237 8205

#### Institutional Sales Romania

Head: Ciprian Mitu +43 (0)50100 85612

Stefan Racovita +40 373 516 531

#### Business Support

Tamara Fodera +43 (0)50100 12614

Bettina Mahoric +43 (0)50100 86441

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