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

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.

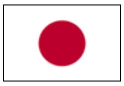
We expect the US dollar to strengthen in the short term, with the market driving EURUSD down once again. However, we are skeptical regarding the sustainability of such a move. The dollar trades already at a very lofty valuation, based on valuation criteria such as the yield differentials between short 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[1]

	current	Mar.17	Jun.17	Sep.17	Dec.17
EURUSD	1,07	1,06	1,08	1,10	1,12
EURCHF	1,07	1.08	1.09	1.1	1.11

EURJPY	current	Mar.17	Jun.17	Sep.17	Dec.17
Bloomberg Survey		121,0	121,0	122,0	123,0
Spot/Forward	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
3M Euribor	-0,33	-0,30	-0,30	-0,30	-0,30
3M Libor US	1,03	1,19	1,44	1,70	2,00
3M Libor CH	-0,73	-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

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 Povazsai-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 Arokszallasi, 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 Ürmössy (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 Holecek	+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

Disclaimer

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