# Forex News

## EURUSD – Dollar retreats
## EURJPY – Yen weakens in line with higher EZ yields
## EURCHF – Appreciation pressure eases

Analyst:
**Rainer Singer**
*rainer.singer@erstegroup.com*

**US dollar weakens following recent central bank decisions**

The most recent monetary policy decisions in the euro zone and the US have lent support to the euro or have weakened the dollar, respectively. After the last meeting of the ECB council the wording of statements at the press conference suggested that the situation was deemed to be improving. The key points of the outlook nevertheless remained unchanged. However, the statements released by the Fed were more important for EURUSD than those of the ECB council. As expected, the FOMC hiked the target range for the federal funds rate by 0.25% to 0.75 – 1.0% on March 15, but left its outlook unchanged. For example, the new projections by FOMC members regarding upcoming moves in the federal funds rate remained unchanged relative to those released in December, calling for a total of three rate hikes this year (median). Statements ahead of the meeting had encouraged speculation about possible changes to the outlook. When that didn't come to pass, the dollar sold off. Lastly, the outcome of the Dutch election may also have contributed to the strengthening of the euro. Political risks were reduced by the relatively poor performance of Geert Wilders.

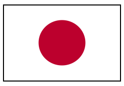
*We expect the dollar to weaken slightly over the rest of the year. The markets have largely priced in the two additional Fed rate hikes we expect to see this year, thus the dollar is unlikely to receive additional support from this source. Moreover, we expect to see continued strength in euro zone economic data, which should fuel speculation that the ECB will adopt a less expansionary monetary policy stance. We believe the greatest risk to our forecast consists of a stronger than expected increase in US inflation rates, which would lead to a greater number of rate hikes by the Fed and consequently a stronger US dollar.*

**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 weakens in line with higher bond yields in the euro zone**

The Bank of Japan announced no major changes with respect to its monetary policy stance recent meeting (March 16 2017). In order to achieve its inflation objective of 2% as soon as possible (most recent reading: 0.1% y/y), the BoJ continues to put its faith into negative deposit rates, QE (approx. JPY 80 trn. per year), as well as control of the yield curve. The latter translates into a commitment by the BoJ to peg 10 year JGB yields close to a level of 0%.

*Since February 24 bond yields in the euro zone have increased substantially at the long end of the curve (inter alia triggered by the recent Fed rate hike). Since the BoJ is pegging comparable Japanese government bond yields to 0%, the yen accordingly weakened against the euro. As a result of the decreasing momentum of populist forces in Europe, political risks in the euro zone are currently in retreat. We expect that this will be reflected in a gradual increase in euro zone bond yields in coming months, with the strong economic recovery also lending support. As long as the BoJ remains committed to its policy of controlling the yield curve, this suggests that the yen is likely to weaken further against the euro in coming months.*

*The greatest risk to this forecast is posed by a potential victory of Marine Le Pen in France's presidential election, which could see the yen firming against the euro (according to recent polls that appears rater unlikely though). However, in the event of a general increase in risk aversion in financial markets, appreciation pressure on the yen could emerge at any time as well. From a technical perspective there is currently a strong area of resistance between the 122-123 levels. Should it be overcome, a rapid move toward 127 could ensue. Should the yen strengthen, the first area of support in EURJPY would be encountered near 118. According to Bloomberg, the analyst consensus calls for the EURJPY cross to trade at 123 by Q4 2017.*

**EURJPY – since 2000**


*Source: Bloomberg, Erste Group Research*

**EURJPY – since July 2011**


*Source: Bloomberg, Erste Group Research*

Analyst:
**Gerald Walek**
*gerald.walek@erstegroup.com*

## EURCHF – Appreciation pressure eases

On occasion of its last meeting, the SNB confirmed that it will maintain its expansionary monetary policy. The target range for three month Libor remained at -1.25% to -0.25% and interest on sight deposits with the central bank was kept at an unchanged rate of -0.75%. According to statements by the SNB, the Swiss franc is still significantly overvalued. Due to the increase in oil prices, the SNB has slightly raised its conditional short term inflation forecast.

*Fundamental factors have barely changed. The SNB's revised inflation forecast of March continues to suggest that a further widening of the inflation differential between Switzerland and the euro zone should be expected for 2017; a moderate tightening seems only likely by 2018. On the political front the Dutch election indicated that the momentum in favor of populist parties in Europe has at least temporarily stalled. As a result there has been no further increase in risk premiums on government bond yields of peripheral countries and France over German Bund yields. Thus the attractiveness of the Swiss franc as a safe haven has subsided somewhat as well, and the momentum of the surge in sight deposits at Swiss banks has noticeably decreased. In this environment there is also less of a necessity for the SNB to intervene in foreign exchange markets.*

*From a technical perspective the EURCHF cross rate is currently fluctuating in a tight range between 1.07 and 1.08. If no fresh political risks emerge, the risk tolerance of investors toward the euro zone should increase in line with the global economic upswing as the year progresses. That should lend support to the euro and we expect the Swiss franc to weaken to around 1.09 Swiss francs per euro by Q4 2017. However, a minimum exchange rate is no longer enforced. Should certain risks materialize (e.g. geopolitical conflicts, political 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 forecasts[1]

| Currency | current | Jun.17 | Sep.17 | Dec.17 | Mar.18 |
|---|---|---|---|---|---|
| EURUSD | 1.08 | 1.08 | 1.10 | 1.12 | 1.12 |
| EURCHF | 1.07 | 1.07 | 1.08 | 1.09 | 1.09 |

| EURJPY | current | Jun.17 | Sep.17 | Dec.17 | Mar.18 |
|---|---|---|---|---|---|
| Bloomberg Survey | | 121.0 | 121.0 | 122.5 | 124.0 |
| Spot/Forward | 119.9 | 120.0 | 120.0 | 120.0 | 121.0 |

*Source: Bloomberg, Erste Group Research*

## Interest rate forecasts

| | current | Jun.17 | Sep.17 | Dec.17 | Mar.18 |
|---|---|---|---|---|---|
| 3M Euribor | -0.33 | -0.30 | -0.30 | -0.30 | -0.30 |
| 3M Libor US | 1.16 | 1.40 | 1.70 | 1.70 | 1.90 |
| 3M Libor CH | -0.73 | -0.75 | -0.75 | -0.75 | -0.75 |

*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, Quant Analyst) +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, CHF) +43 (0)5 0100 16360

**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
Vit Machacek (Fixed income) +420 956 765 456
Jiri Polansky (Fixed income) +420 956 765 192
Roman Sedmera (Fixed income) +420 956 765 391
Michal Skorepa (Fixed income) +420 956 765 172
Pavel Smolik (Equity) +420 956 765 434
Jan Sumbera (Equity) +420 956 765 218
**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

## 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
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
Sarlota Sipulova +421 2 4862 5619
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 Mortun Racovita +40 373 516 531
**Business Support**
Tamara Fodera +43 (0)50100 12614
Bettina Mahoric +43 (0)50100 86441

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