



## US dollar

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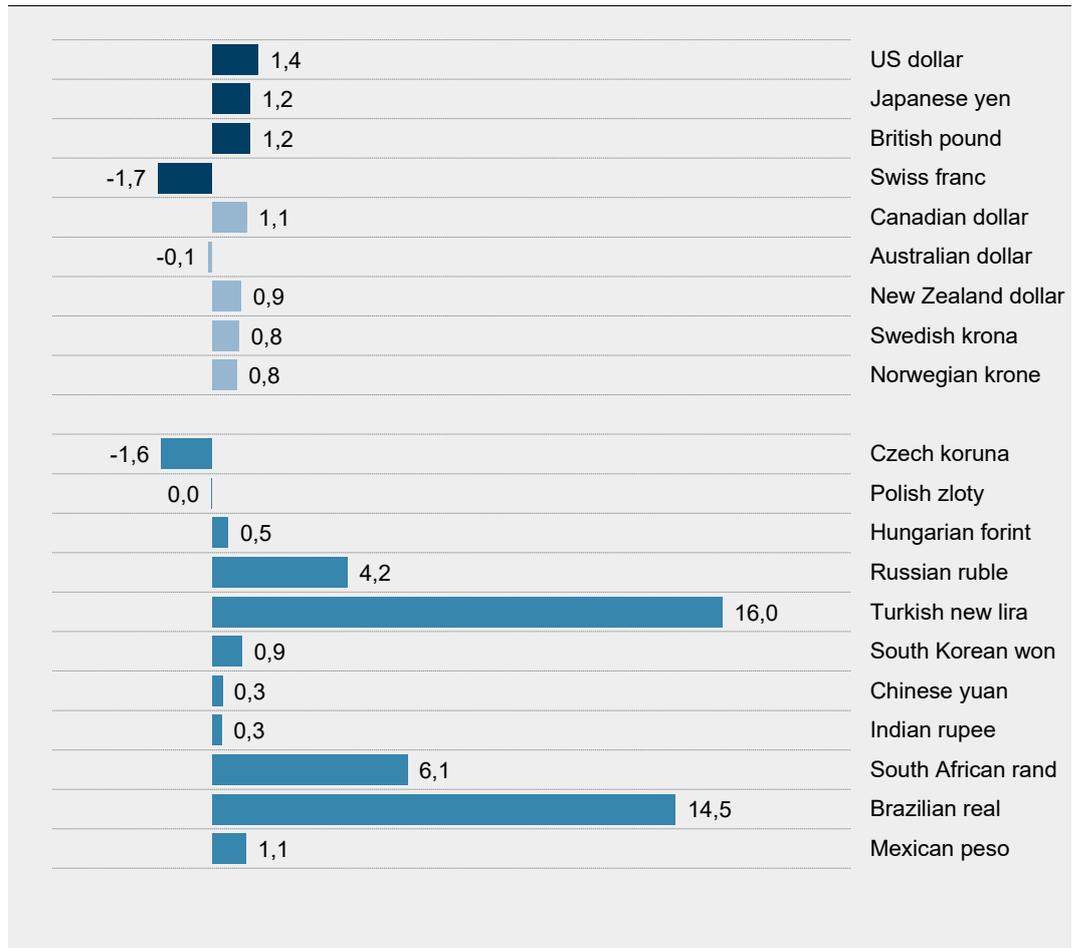
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- The US dollar gained a little ground. The euro-dollar exchange rate is likely to remain stable over the short term. High US interest rates and problems in Italy are offset by political uncertainties in the US. The cyclical tailwind in the US should weaken 2019. Trump's policies also entail disadvantages for the US currency. The US dollar should pull back in the coming year.
- The US dollar appreciated against the euro, recently. Even weaker than the euro was the Swiss franc. Most of the emerging market currencies recovered, the Brazilian real and the Turkish lira appreciated strongly.
- Helaba Currency Forecasts

### Performance on a month-over-month basis

% vs. euro compared to the previous month (from 09/18 to 10/17/18)



■ Core currencies ■ Rest of G10 ■ Currencies of emerging markets

Sources: Bloomberg, Helaba Research

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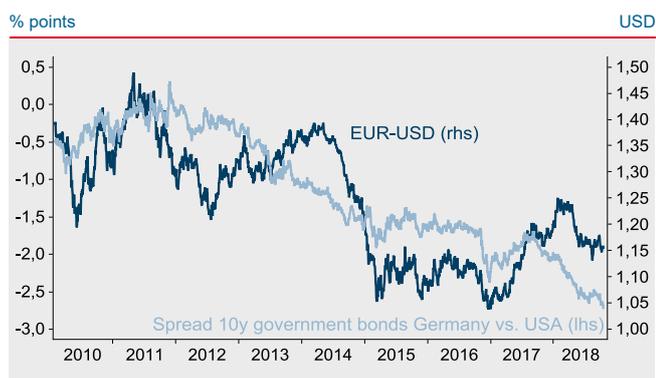
## USD: gloomier outlook

The dollar's strength is coming to an end. The US currency has recently gained some ground against the euro thanks to higher interest rates and the problems surrounding Italy. Nevertheless, the Greenback was not able to mark new highs. The euro-dollar exchange rate continues to trade around 1.15. The emerging market currencies, which had previously been in crisis, were able to recover noticeably.

Economic tailwind weakens in 2019

The cyclical picture in the USA is intact. Fuelled by the tax cuts and increased government spending, the US economy should grow by just under 3 % in 2018. The unemployment rate has fallen to its lowest level since the end of 1969. Sentiment indicators are still at high levels. The Federal Reserve raised its key interest rate on a quarterly basis and will continue its course for the time being. Ten-year US yields climbed to their highest level since 2011, and the US interest rate advantage increased accordingly. From a dollar perspective, however, the world can hardly get much better. In the coming year, the fiscal stimulus will lose momentum. Growth rates will decline, especially as the US economy will not emerge completely unscathed from the trade conflict with China. The Fed is therefore likely to suspend its interest rate hikes in the course of 2019. In the euro zone, the ECB will probably raise its key interest rate for the first time in the second half of 2019. For this reason, the US yield advantage will probably gradually come off its peak.

### US yield advantage close to its peak



Sources: Macrobond, Helaba Research

### US "twin deficits" as a burden for the dollar



\* Sum from current account balance and budget balance (US federal budget);  
Sources: Macrobond, Helaba Research

Long term factors a burden for US dollar

Other factors can also weigh on the US dollar. The price for stronger short-term growth is higher budget deficits and a larger mountain of debt. The budget deficit in the US will approach the 5 % mark of gross domestic product in the coming year. While a comparison with Italy is misleading, the drama surrounding Italy's planned deficit of 2.4 % is put into a different perspective by the US figures. At above 2 % of GDP, the US current account deficit is rather moderate compared to the last 20 years. Nevertheless, in contrast to the euro zone or China, a deficit does remain. These "twin deficits" tended to be a burden in the past. The US dollar as a whole continues to be overvalued in terms of purchasing power parity, especially against the euro. The trade conflict is ambivalent for the US currency. Due to the associated uncertainties, the US dollar is being sought after as a safe-haven currency. However, the US government's generally protectionist attitude is accompanied by interest in a weaker currency, which Trump underscored not least with his criticism of the Fed's policy. In the recent past, the US used the Greenback as a political weapon, e.g. as sanctions against Iran. At least from a long-term perspective, some states will strive to reduce their dependence on the US dollar. In the short term, the euro-dollar exchange rate will presumably continue to fluctuate around 1.15. The uncertainties surrounding Italy are countered in the USA by the congressional elections in November. In 2019, the longer-term factors will presumably gain importance. With a weakening cyclical tailwind for the Greenback, the euro should rise in the direction of 1.25 US dollars.

## Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q4/2018	Q1/2019	Q2/2019	Q3/2019
<b>vs. Euro</b> (vs. Euro, %)							
US dollar	4,4	1,4	1,15	1,15	1,20	1,20	1,25
Japanese yen	4,4	1,2	130	123	125	125	125
British pound	1,3	1,2	0,88	0,85	0,85	0,85	0,80
Swiss franc	2,2	-1,7	1,14	1,15	1,15	1,15	1,20
Canadian dollar	0,8	1,1	1,50	1,47	1,51	1,51	1,58
Australian dollar	-5,0	-0,1	1,62	1,60	1,62	1,60	1,60
Swedish krona	-4,6	0,8	10,31	10,20	9,90	9,60	9,30
Norwegian krone	4,2	0,8	9,45	9,30	9,10	8,90	8,80
Chinese yuan	-2,4	0,3	7,99	7,94	8,22	8,16	8,50
<b>vs. US-Dollar</b> (vs. USD, %)							
Japanese yen	0,0	-0,3	113	107	104	104	100
Swiss franc	-2,1	-3,1	1,00	1,00	0,96	0,96	0,96
Canadian dollar	-3,4	-0,4	1,30	1,28	1,26	1,26	1,26
Swedish krona	-8,7	-0,6	8,96	8,87	8,25	8,00	7,44
Norwegian krone	-0,1	-0,7	8,21	8,09	7,58	7,42	7,04
Chinese yuan	-6,1	-1,0	6,93	6,90	6,85	6,80	6,80
<b>US-Dollar vs. ...</b> (vs. USD, %)							
British pound	-2,9	-0,3	1,31	1,35	1,41	1,41	1,56
Australian dollar	-9,0	-1,5	0,71	0,72	0,74	0,75	0,78

\*17.10.2018

Sources: Bloomberg, Helaba Research ■