



FX FOCUS

19 June 2019

US dollar

AUTHOR

Christian Apelt, CFA
phone: +49 69/91 32-47 26
research@helaba.de

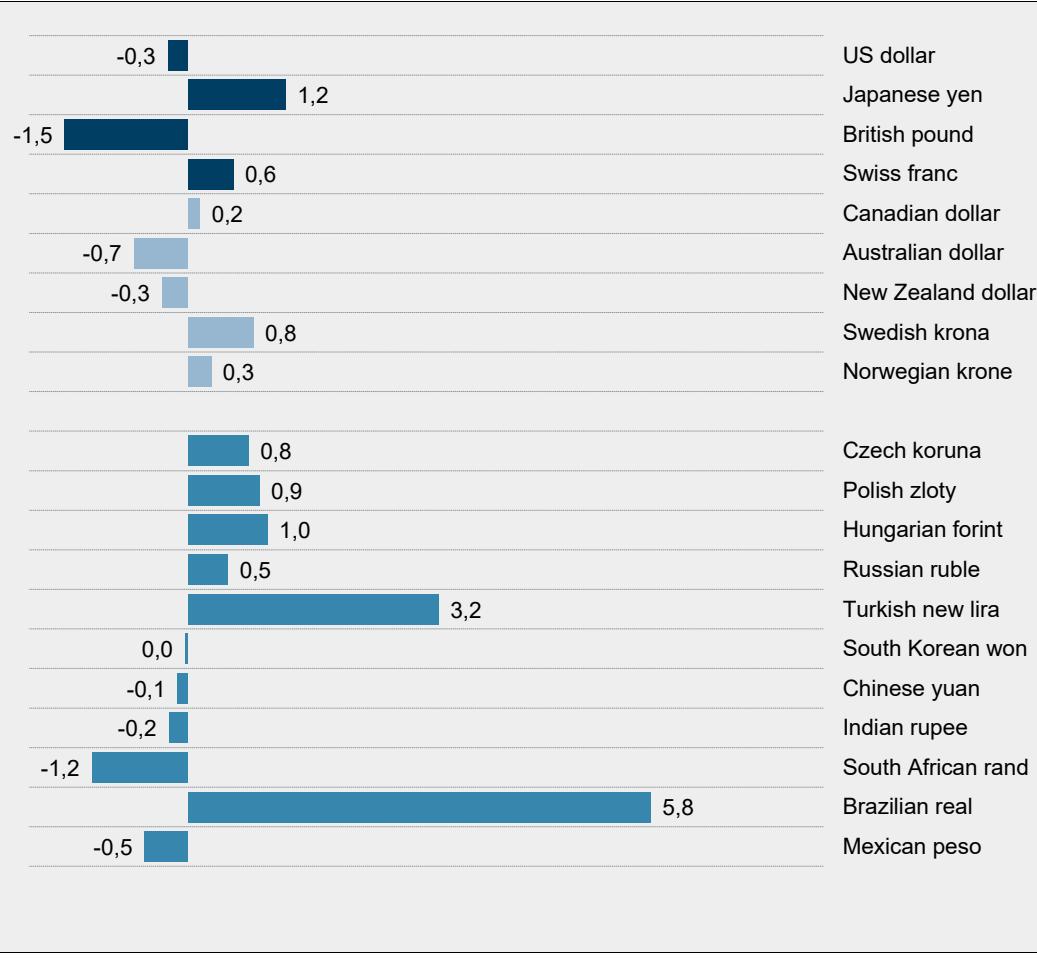
EDITOR:
Claudia WindtPUBLISHER:
Dr. Gertrud R. Traud
Chief Economist/
Head of Research

Helaba
Landesbank
Hessen-Thüringen
MAIN TOWER
Neue Mainzer Str. 52-58
60311 Frankfurt am Main
phone: +49 69/91 32-20 24
fax: +49 69/91 32-22 44

- The euro-dollar exchange rate could not decide which way to go. Political uncertainties and potential expansionary measures of the ECB weigh on the euro. However, the change of course in US monetary policy argues against the Greenback, especially since the Fed has much more leeway. In view of valuation aspects, the US budget and current account deficits and Trump's protectionist bias, the euro should gain the upper hand in the medium and long term.
- In the currency market, the British pound fell significantly. Swiss franc and Japanese yen appreciated slightly. In emerging markets, the Brazilian real recovered noticeably from a phase of weakness, as did the Turkish lira.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 05/20 to 06/18/19)



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

Sources: Bloomberg, Helaba Research

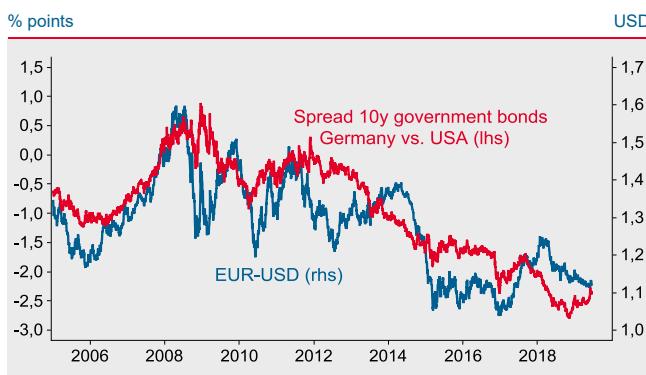
USD: depreciation potential

The euro-dollar exchange rate doesn't really know where it's going. First the exchange rate skirted close to the low for the year of 1.11, and then it broke through its downward trend with a jump above 1.13. Subsequently, one euro slipped back to 1.12 US dollars. And this even though there are not only long-term arguments in favour of the single currency; the cyclical picture is also changing against the US dollar.

Fed with interest rate cuts in its future

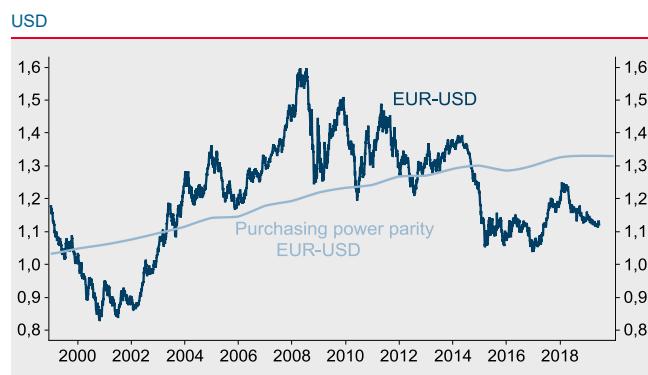
The trade conflict instigated by US President Trump is taking its course. The punitive US tariffs toward China are in effect, and no solution is in sight in the near future. At least Trump has taken the threat of punitive tariffs against Mexico that was briefly in the air off the table again. The impact on the US economy has so far been limited: after a robust first quarter, GDP is likely to grow solidly in the second quarter. Private consumption is supporting growth, although the last labour market report was disappointing. The sentiment indicators turned out to be mixed. While the data situation does not indicate a clear direction, the US Federal Reserve has gradually changed course. Fed Chairman Powell verbally opened the door to interest rate cuts in fear of possible repercussions from the trade conflict – as a kind of insurance step. Experience over the past decades has shown that the Fed sooner or later met the expectations of interest rate cuts prevailing in the money market. We now expect two rate cuts by the end of 2019. The US yield advantage over the euro declined further.

Sinking US yield advantage – when will the euro rise?



Sources: Macrobond, Helaba Research

US dollar clearly overvalued against the euro



Sources: Macrobond, Helaba Research

US dollar has so far defied the difficult environment

In the past, Fed interest rate cuts were not across the board negative for the US currency. After all, other central banks also frequently reacted in that situation, so that interest rate differentials did not always move at the expense of the US dollar. In the current case, however, other central banks, especially the ECB, have little potential for interest rate cuts. As a result, the US interest rate advantage is likely to decline further, even if the ECB were to lower its deposit rate symbolically. The economic situation in the euro zone is still shaky. A setback is to be expected after the good first quarter. However, the leading indicators appear to be forming a bottom, so that the euro zone will probably catch up relative to the USA. Over the long term, there is more that argues in favour of the euro, in any case. In terms of purchasing power parities, the US currency is clearly overvalued. Trade and current account balances also show this. US government finances are more like the Italian than the euro zone average. However, despite the political chaos in the USA under Trump, the currency market sees the risks more in the monetary union. Italy's confrontational course against Brussels in budgetary policy can be worrisome. Nevertheless, the Italian yield premium over German government bonds has receded again. The Brexit issue is also emerging again as a negative factor, as Boris Johnson will presumably succeed Theresa May as Prime Minister. However, this does not have to mean anything for the outcome of the drama – the recent weakness of the pound is therefore exaggerated. The euro would benefit from less political uncertainty. With the help of the Fed, the euro should – finally – gain the upper hand. The euro-dollar exchange rate could rise to 1.20 by the end of the year.

Helaba Currency Forecasts

| | Performance | | | Forecast horizon at end ... | | | |
|--------------------------|---------------|---------|----------|-----------------------------|---------|---------|---------|
| | year to date | 1 month | current* | Q2/2019 | Q3/2019 | Q4/2019 | Q1/2020 |
| vs. Euro | (vs. Euro, %) | | | | | | |
| US dollar | 2,4 | -0,3 | 1,12 | 1,15 | 1,15 | 1,20 | 1,20 |
| Japanese yen | 3,6 | 1,2 | 121 | 123 | 123 | 127 | 127 |
| British pound | 0,8 | -1,5 | 0,89 | 0,87 | 0,85 | 0,85 | 0,85 |
| Swiss franc | 0,5 | 0,6 | 1,12 | 1,12 | 1,15 | 1,15 | 1,15 |
| Canadian dollar | 4,4 | 0,2 | 1,50 | 1,52 | 1,51 | 1,55 | 1,54 |
| Australian dollar | 0,0 | -0,7 | 1,63 | 1,64 | 1,60 | 1,62 | 1,60 |
| Swedish krona | -4,9 | 0,8 | 10,67 | 10,50 | 10,30 | 10,00 | 9,80 |
| Norwegian krone | 1,2 | 0,3 | 9,79 | 9,60 | 9,40 | 9,10 | 9,00 |
| Chinese yuan | 1,7 | -0,1 | 7,73 | 7,94 | 7,94 | 8,16 | 8,16 |
| vs. US-Dollar | (vs. USD, %) | | | | | | |
| Japanese yen | 1,1 | 1,5 | 108 | 107 | 107 | 106 | 106 |
| Swiss franc | -1,8 | 0,8 | 1,00 | 0,97 | 1,00 | 0,96 | 0,96 |
| Canadian dollar | 1,9 | 0,4 | 1,34 | 1,32 | 1,31 | 1,29 | 1,28 |
| Swedish krona | -7,1 | 1,3 | 9,54 | 9,13 | 8,96 | 8,33 | 8,17 |
| Norwegian krone | -1,2 | 0,5 | 8,75 | 8,35 | 8,17 | 7,58 | 7,50 |
| Chinese yuan | -0,4 | 0,1 | 6,90 | 6,90 | 6,90 | 6,80 | 6,80 |
| US-Dollar vs. ... | (vs. USD, %) | | | | | | |
| British pound | -1,5 | -1,3 | 1,26 | 1,32 | 1,35 | 1,41 | 1,41 |
| Australian dollar | -2,4 | -0,4 | 0,69 | 0,70 | 0,72 | 0,74 | 0,75 |

*18.06.2019

Sources: Bloomberg, Helaba Research ■