



US dollar

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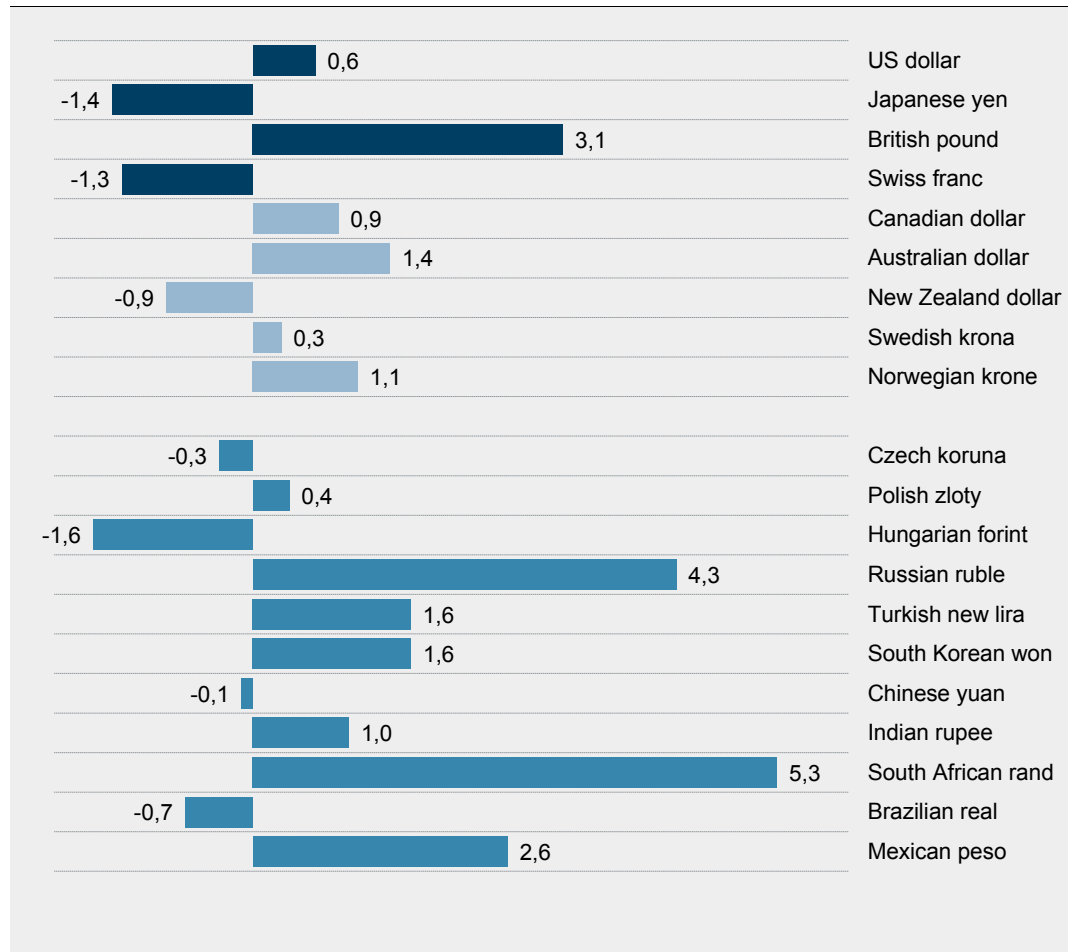
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- The US dollar was robust. However, the currency is clearly overvalued, which irritates President Trump. Despite solid US growth, monetary policy is becoming more expansionary. The Fed has more scope for rate cuts than the ECB, so the US interest rate advantage is shrinking. Less economic and political headwinds from Europe should help the euro and the euro-dollar exchange rate should rise again.
- The US dollar did not fully defend its recent high. The British pound rose significantly. Safe havens such as the Swiss franc and Japanese yen depreciated. In the emerging markets, the Russian ruble and South African rand increased significantly.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 08/20 to 09/18/19)



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

Sources: Bloomberg, Helaba Research

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USD: at its peak

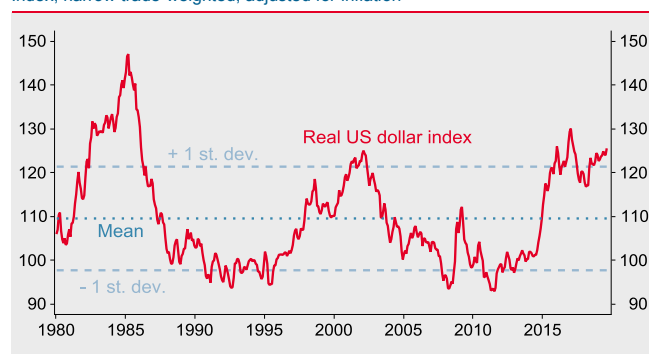
The US dollar shows a continuing trend toward strength. In September, the dollar indices reached new highs for the year, as the euro-dollar exchange rate fell to 1.09 at times. Despite a slight setback recently, the Greenback is one of the strongest currencies this year – only the Canadian dollar and Japanese yen gained more ground. This angers President Trump, who therefore rails against his own central bank. The USA is the industrialized country with the highest key interest rates – with the exception of Iceland and some Eastern European countries. This also applies after the recent reduction below 2 %. First of all, the interest rate advantage makes the US dollar attractive, especially as other central banks such as the ECB are taking more expansionary measures. But will the situation remain this way?

Fed cuts rates despite a solid US economy

By international standards, the US economy has so far held up solidly. The trials and tribulations of the trade conflict initiated by Trump seem to affect other economies more than the relatively closed US economy. Private consumption, based on a robust labour market, is once again the mainstay. However, things are not looking so good everywhere: the mood in the industrial sector has deteriorated noticeably. Corporate investment is growing only slowly. The next round of punitive tariffs on imports from China will affect significantly more consumer goods, so that private consumption is also likely to lose momentum. Overall, US growth will be more modest in the coming quarters. Although this is not necessarily a reason for interest rate cuts, it does not argue against them. The Fed will probably cut its key rate at least one more time.

Overvalued US dollar angers Trump

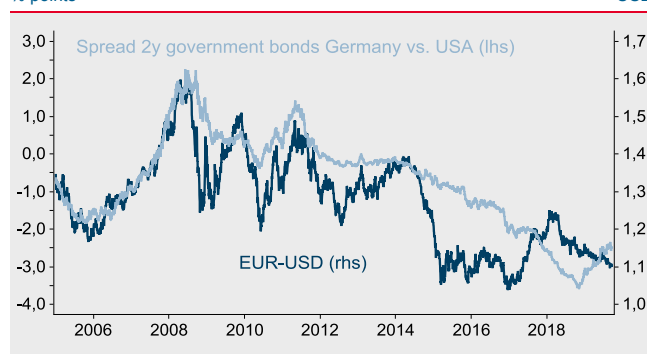
Index, narrow trade-weighted, adjusted for inflation



Sources: Macrobond, Helaba Research

US yield advantage over euro gradually shrinking

% points USD



Sources: Macrobond, Helaba Research

Gloomier prospects for the US dollar

However, the fact that the USA is doing comparatively well has already been more than priced into the currency market. The US dollar is clearly overvalued on the basis of purchasing power parities or real, trade-weighted indices. While US growth will lose momentum, the euro zone economy could gradually recover from its low. The growth advantage of the USA will probably decline. This has already been the case for the US yield advantage since the end of 2018. The ECB has reduced its key interest rate by 10 basis points and could do so again. However, unlike the Fed, the European Central Bank has hardly any room for a cut – ECB president Draghi sees fiscal policy as the main focus of attention. Interest rate differentials will therefore continue to move in favour of the euro. To be sure, the ECB's new bond purchase program of EUR 20 billion per month is weighing on the currency. However, the Fed in turn has stopped reducing its securities portfolio, which was larger at an average of almost 40 billion dollars per month. The political problems in Europe also appear to be easing. With a new government in Italy, the yield premium for Italian bonds fell sharply. The Brexit is likely to be postponed again thanks to the intervention of the British House of Commons. The US-Chinese trade conflict also showed signs of a slight easing of tension. Nevertheless, Trump's protectionist agenda remains intact, as does his pressure on the Fed, while the debt situation is not yet an issue. The future of the US currency is getting bleaker. The euro-dollar exchange rate is likely to rise to 1.15 and beyond in 2020.

Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q4/2019	Q1/2020	Q2/2020	Q3/2020
vs. Euro (vs. Euro, %)							
US dollar	4,0	0,6	1,10	1,15	1,15	1,20	1,20
Japanese yen	5,2	-1,4	120	122	122	125	125
British pound	1,6	3,1	0,88	0,85	0,85	0,85	0,80
Swiss franc	2,3	-1,3	1,10	1,10	1,10	1,10	1,15
Canadian dollar	6,7	0,9	1,47	1,51	1,50	1,54	1,54
Australian dollar	0,7	1,4	1,62	1,64	1,64	1,67	1,67
Swedish krona	-5,4	0,3	10,73	10,30	10,20	10,00	9,90
Norwegian krone	0,4	1,1	9,87	9,60	9,50	9,40	9,30
Chinese yuan	0,4	-0,1	7,84	8,17	8,05	8,28	8,28
vs. US-Dollar (vs. USD, %)							
Japanese yen	1,1	-2,0	108	106	106	104	104
Swiss franc	-1,5	-1,9	1,00	0,96	0,96	0,92	0,96
Canadian dollar	2,6	0,2	1,33	1,31	1,30	1,28	1,28
Swedish krona	-9,0	-0,3	9,73	8,96	8,87	8,33	8,25
Norwegian krone	-3,4	0,4	8,95	8,35	8,26	7,83	7,75
Chinese yuan	-2,9	-0,4	7,09	7,10	7,00	6,90	6,90
US-Dollar vs. ... (vs. USD, %)							
British pound	-2,2	2,5	1,25	1,35	1,35	1,41	1,50
Australian dollar	-3,1	0,7	0,68	0,70	0,70	0,72	0,72

*18.09.2019

Sources: Bloomberg, Helaba Research ■