



# CURRENCY OUTLOOK - FEBRUARY 2017



# £/€ Currency outlook

## Trevor Charsley - Senior Markets Analyst



### January look back

For the start of the New Year GBPEUR was under pressure as the market continued to price in the UK's departure from the EU, despite positive UK economic data. One example being Services Purchasing Managers Index (PMI) coming in at 56.2, the highest since August 2015. However, the market also noted the positive inflation data coming out of the European Union (EU) which on the back of the oil price saw EU flash CPI jump to 1.1% as well as EU Services PMI at a healthy 53.1. Ultimately fears of a hard Brexit forced GBPEUR through important support at 1.1500 until Theresa May's speech on January 17<sup>th</sup> enabled the market to buy pounds as it considered her clear and candid message to the EU. On January 25<sup>th</sup> the Supreme Court ruled that parliament had to give consent for Article 50 to be triggered, this too pushed sterling higher into the end of the month. The Pound only ceded ground to the Euro at month end when EU flash estimates CPI and GDP came in at +1.8% YoY and +0.5% QoQ respectively.



Chart source: Bloomberg, Jan 30<sup>th</sup>

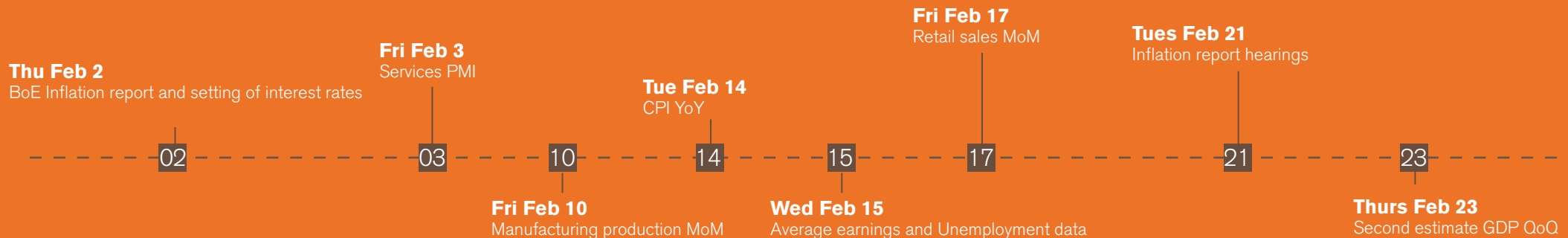
### £ Fundamental data

Base Rate:	0.25%
GDP:	+2.2% YoY
CPI:	1.6% YoY
Unemployment:	4.8%
Current account:	−£25.5 billion QoQ

### February events, opportunities and risks

The month kicks off quickly with “Super Thursday” and its BoE inflation report. As the last CPI number was +1.6% YoY the market will be keen to know how far the UK's central bank will let inflation rise before pushing interest rates higher. Now that we have had the Supreme Court's verdict, the Government has reacted to ensure that Article 50 will be triggered by the end of March 2017. It wouldn't be a surprise if the market started to price this act in to sterling by selling pounds again. Of course the Euro is affected as well but at the moment the focus and expectations are for pressure to start building on the UK economy, as such GBPEUR downside targets may well be achievable. However, be aware of the Dutch elections in March, the market is always forward thinking and if it starts to focus on the existential question of the survival of the Euro it will be subject to bouts of weakness. Latest estimates reported in the FT give March 9<sup>th</sup> as a probable date for Article 50 being triggered.

### February 2017 UK events





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## January lookback

The Pound managed to catch the market on the hop as it pushed lower through the 1.2000 level and then bounced aggressively higher from this psychological level, this was after UK Prime Minister May had announced her plan for Brexit in Parliament. The Supreme Court verdict against the Government and then Theresa May's subsequent agreement to publish a whitepaper on Brexit helped push GBPUSD higher again. The UK Prime Minister's visit to see President Trump went well with promises of a quick bilateral trade treaty to be signed as soon as possible after Brexit.

It is important to note that in the aftermath of Trump's very divisive immigration controls, when the USD lost ground to the Yen, Swiss Franc and Euro, it gained against sterling.

(Please refer to GBPEUR for sterling releases and more sterling comment).



Chart source: Bloomberg, Jan 30<sup>th</sup>

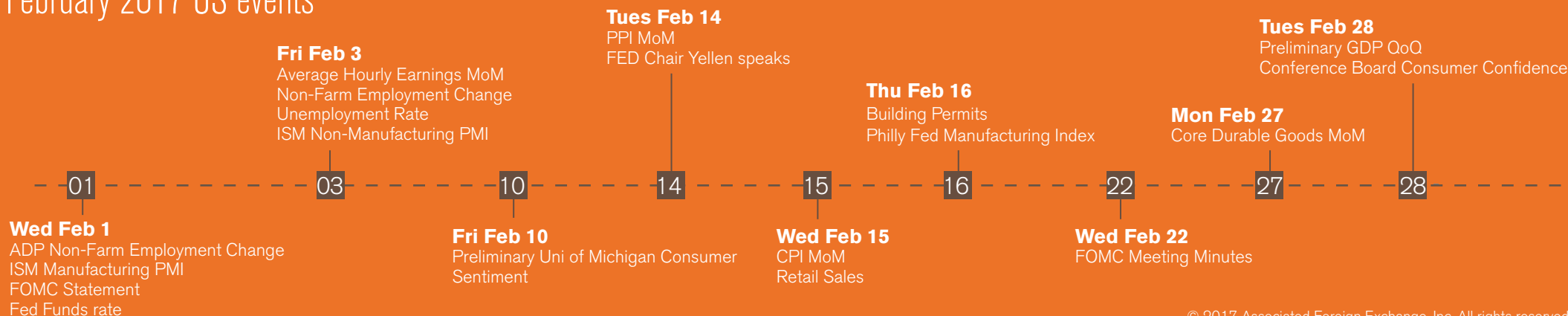
## US \$ Fundamental data

FED funds:	0.5%-0.75%
GDP:	+1.9% QoQ
CPI:	+2.1% YoY
Unemployment:	4.7%
Current account:	-\$112.96 billion

## February events, opportunities and risks

It is now time for us to actually see what Donald Trump will do with the US economy. He has been very vocal applying pressure to US manufacturers as well as some Japanese and German car producers, we need to see how the non US firms respond. Trump has also been critical of China but only 19% of Chinese exports go to the US, so any actions taken by Trump could not have such a huge effect on the Chinese economy. One way to really get the attention of the Chinese and reduce the US budget deficit at the same time would be to give every US Treasury bond holder a 15% haircut. Trump mused over this before but if it came to pass this would have huge ramifications elsewhere. The markets have been expecting news on tax cuts and infrastructure spending from Trump, instead receiving micro management. If he loses sight of the big picture economy this won't be positive for the US Dollar. What is positive for the US Dollar is the interest rate picture, the Fed is still telling the market that it aims for three rate hikes this year and increasing the differential between US and UK interest rates.

## February 2017 US events





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## January lookout

The main event for the Euro last month was really a non-event, the ECB meeting didn't change any interest rates and ECB President Draghi insisted that despite final CPI being at 1.1% he wasn't going to consider any sort of tapering to his Quantitative Easing (QE) programme. The Euro managed to push higher against the US Dollar on Dollar weakness, the FX market still needs convincing that President Trump's policies will be good for the US economy, but stayed in recent ranges when compared to sterling as the Supreme Court decision encouraged pound buying. On the political front Europe has been casting worried glances at the new US President Donald Trump, with French President Hollande saying that he poses "challenges" for Europe.

The first of three European elections and possibly four this year is the Dutch election on March 15<sup>th</sup>. Polls are beginning to indicate a radical change in Government could be possible.



Chart source: Bloomberg, Jan 30<sup>th</sup>

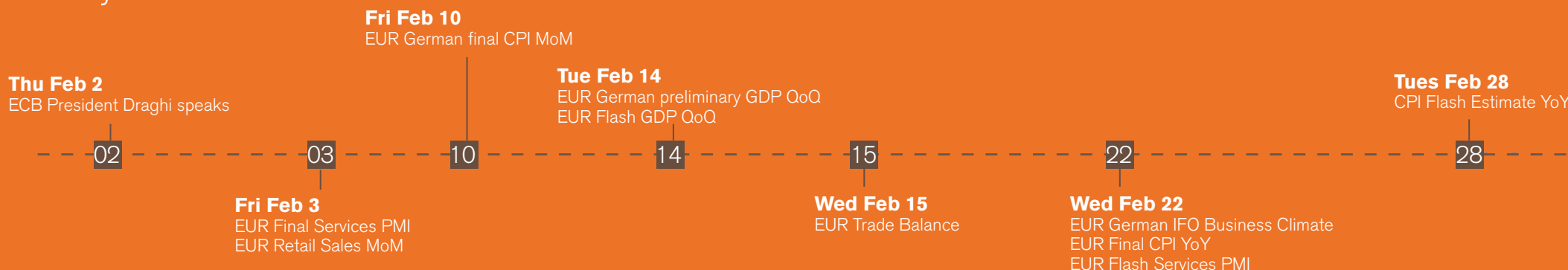
## € Fundamental data

Base Rate:	-0.4%
GDP:	+0.5% QoQ
CPI:	+1.8% YoY
Unemployment:	9.6%
Trade balance:	+€22.7 billion MoM

## February events, opportunities and risks

The spotlight is still away from the single currency with the first European general election being held in March in Netherlands, until then the Euro will be pushed around by other currency themes. Euro interest rates are still in negative territory, it would not be a surprise if the EURUSD rate hit parity sometime this year. Watch out for internal disagreements between Germany and the ECB as European inflation continues to push higher, and Germany gets more vocal on normalizing European interest rates. On the political scene it appears that Marine Le Pen is taking some pointers from Trump's campaign. We know that the electorate can forgive many flaws in an individual or movement, as long as they see a particular result coming from their vote. In this case, if Marine Le Pen is seen as someone who can protect the French population and take France out of the Euro, which is not allowing them to devalue against the ever efficient Germans she has a chance to win. Currently her closest rival, Fillon, is facing embezzlement allegations which may see him drop out and produce a French election result that shocks the world.

## February 2017 EU events



# RoW Currency outlook

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## January lookahead

Donald Trump's inauguration polarised opinion as some parted with the new President while others protested. As soon as he became President "The Donald" was quick off the mark with his Executive orders. He announced his intent to renegotiate the North American Free Trade Treaty (NAFTA) initially causing concern for both Mexico and Canada, but he then signed off on the Keystone XL and Dakota access oil pipelines, effectively helping Canada and leaving only Mexico on the "naughty step". The Loonie took advantage of this and managed to gain some 2.5% on the US Dollar for the month. Trump also started the process to build a wall between the US and Mexico, which so annoyed the Mexican President Nieto that he cancelled a proposed meeting between the two leaders. It is apparent that Trump doesn't like trade agreements between many countries and prefers bi lateral agreements so he also signed off on withdrawing from the Trans Pacific Partnership deal. Finally, Trump's immigration policy was bluntly applied at the end of the month, which upset and infuriated both Governments and people in the Global economy.



Chart source: Bloomberg, Jan 30<sup>th</sup>

## AUD economic data

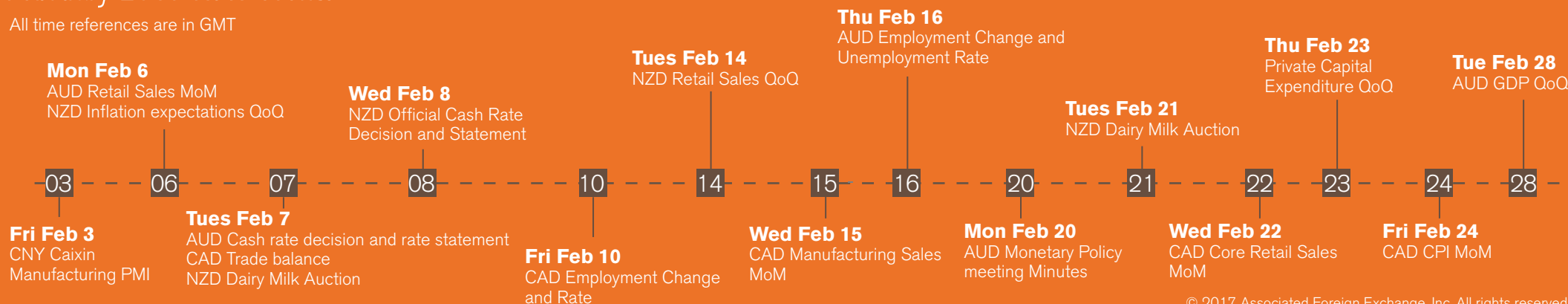
Official Cash Rate:	1.5%
GDP:	+1.8% YoY
CPI:	+1.5% YoY
Unemployment:	5.8%
Current account:	-AUD 11.4 billion

## February events, opportunities and risks

The main concern for the currency pairs in the rest of the World is exactly how the new President Trump's trade policy is going to affect them. China could easily benefit from the USA's withdrawal from the Transatlantic Pacific Partnership agreement as it has its own plans for trade treaties between Asian countries. However, it could suffer if Trump actually followed up his verbal assault on China with action. Australia will be caught up in the wash if the situation between the US and China worsens. Canada having benefitted from the recent Opec deal now has concerns (although recently diminished) over Trump's plans for the NAFTA treaty. Mexico will take the largest hit as they export 82% of their total exports to the US but Canada has to be careful to ensure that it can still trade as freely as it currently does with the US.

## February 2017 RoW events

All time references are in GMT



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