

Forex News

EURUSD – Disappointing US-data dampens interest rate expectations
EURJPY – Yen weakens noticeably after BoJ decision
EURCHF – Swiss franc weakens against euro



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Concerns over US economy weaken the dollar

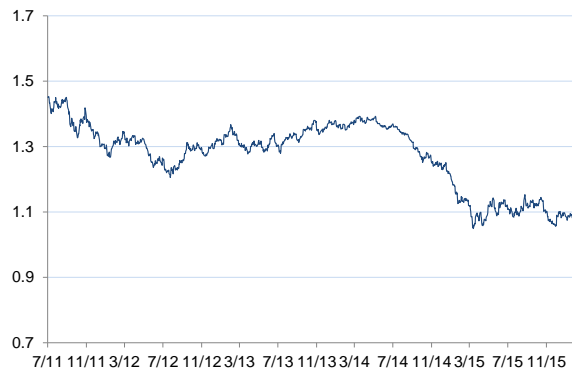
The EURUSD continued to move sideways around 1.09 during January. Even the announcement by the ECB council 'to review and possibly reconsider our monetary stance' at the March meeting only had a short-term impact on the exchange rate. With this statement, the ECB wanted to prepare markets at least for the possibility of further monetary loosening ahead. The possible measures include - among others - a further reduction of the deposit rate and/or an increase of monthly asset purchases. The ECB has not given any guidance in this regard. Crucial factors will include how key variables such as the oil price, inflation expectations and - in our view - the exchange rate develop until the next council meeting on March 10. From the current perspective, we give a further reduction of the deposit rate by 0.1% to -0.4% a very high probability. At the same time, we are cautious concerning an increase of monthly asset purchases. As mentioned, the EURUSD only reacted briefly to the news, which was probably due to the deteriorated outlook for the US economy, which was confirmed by the low growth reported for 4Q15, according to the first estimate. We do not believe that this was the prelude to a sustained weakening of the US economy. Still, the recent data dampened interest rate expectations for the US, which resulted in a considerable weakening of the dollar vs. the euro most recently. This trend might continue in the short term. However, should the dollar weakness persist, we would expect a reaction by the ECB, which in our view is determined to avoid a firming of the euro. We have altered our March forecast marginally, but stick to our overall forecast of a more or less sideways movement of EURUSD below 1.1 during the coming months.

EURUSD – since 2000

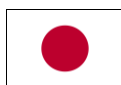


Source: Bloomberg, Erste Group Research

EURUSD – since July 2011



Source: Bloomberg, Erste Group Research



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JPY – BoJ weakens yen by introducing negative interest rates

Based on consensus estimates, Japan's GDP growth is expected to amount to 0.6% in 2015. In 2016 the IMF expects growth to accelerate to 1.0%. Recently released leading indicators are pointing to a slow start for Japan's economy in 2016. The manufacturing PMI has slightly decreased to 52.3 points (52.6 previously), as has consumer confidence (42.5 points after 42.7 previously). High government debt (more than 200% of GDP) combined with a large budget deficit (6.5% of GDP) remains Japan's greatest challenge.

As its meeting on 29. January 2016, the **BoJ has surprised the markets with the decision to complement its ongoing asset purchase program (QE) with the introduction of negative interest rates.** The main driver of this decision was a stubbornly low inflation rate (0.1% y/y in December). Henceforth the BoJ will impose a negative interest rate of -0.1% on certain types of deposits commercial banks are holding with it and is prepared to decrease this rate further if necessary. A three-tier system is going to be adopted; depending on the categorization of deposits, three different interest rate levels are going to be applied (-0.1%, 0% and +0.1%).

Due to this decision the yen has weakened significantly vs. the euro and EURJPY has risen markedly above the 130 level. As a result of this, the technical picture has been fundamentally altered. **The short (20-day moving average) and medium term trends (50-day ma) have turned up and are thus pointing to further declines in the yen vs. the euro over coming weeks.** Following the ECB meeting on 10. March, a short term trend change could be in the offing, depending on how markets will interpret the ECB's decisions (we expect an expansion, resp. modification of its monetary policy measures). The long term trend bias (200-day ma) has turned to neutral from down. Based on support and resistance levels we expect EURJPY to remain in a range from 130 to at most 135 in coming weeks. As has recently become evident, in the short term the euro-yen cross will continue to be strongly influenced by central bank decisions. The analyst consensus is currently calling for moderate decline in the cross to a level of EURJPY 129 by the end of the year.

EURJPY – since 2000



Source: Bloomberg, Erste Group Research

EURJPY – since July 2011



Source: Bloomberg, Erste Group Research

EURCHF – Swiss franc weakens against euro



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The Swiss franc has exhibited significant weakness against the euro since mid January. The depreciation which had been expected in vain for many months already, has finally materialized last month. Somewhat higher than expected inflation in Switzerland at the end of 2015 and a decline in euro zone inflation expectations have lowered the inflation differential between Switzerland and the euro area, which has led to a decrease in appreciation pressure on the franc. The relative calming of financial tensions within the euro zone allows the interest rate differential between the two regions to exert its effects, which lowers the Swiss franc's attractiveness as an investment asset.

Switzerland's economic performance remains subdued as well. SECO is forecasting GDP growth of 1.5% in 2016, which is below our forecast for the euro zone of 1.8%. Considering the fact that Switzerland has grown markedly faster than the euro area over the past decade, the performance of the Swiss economy has worsened markedly relative to that of the euro zone. This argues in favor of a temporary weakening of the Swiss franc against the euro as well.

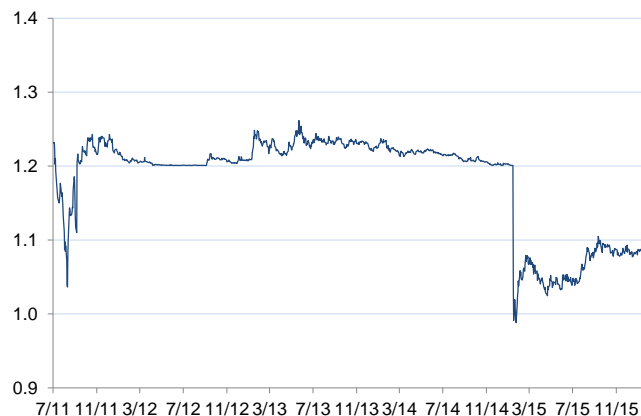
The current overvaluation of the Swiss franc against the euro remains obvious from a fundamental perspective. We therefore expect the Swiss franc to continue to depreciate in the course of this year. However, a minimum exchange rate is no longer enforced. Should certain risks materialize (such as e.g. geopolitical conflicts, turmoil in the euro zone) 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

	current	Mar.16	Jun.16	Sep.16	Dec.16
EURUSD	1.12	1.07	1.07	1.08	1.10
EURCHF	1.11	1.1	1.11	1.12	1.13

Quelle: Bloomberg, Erste Group Research

EURJPY	current	Mar.16	Jun.16	Sep.16	Dec.16
Bloomberg Survey		129.0	129.0	129.0	132.0
Spot/Forward	130.8	133.0	133.0	133.0	133.0

Quelle: Bloomberg, Erste Group Research

Interest rate forecasts

	current	Mar.16	Jun.16	Sep.16	Dec.16
3M Euribor	-0.17	-0.25	-0.25	-0.25	-0.25
3M Libor US	0.62	1.00	1.30	1.80	2.20
3M Libor CH	-0.75	-0.75	-0.75	-0.75	-0.75

Quelle: Bloomberg, Erste Group Research

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Forex News | Currencies | US-Dollar, Yen, Swiss Franc

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