April 2018

IN BRIEF

What happened

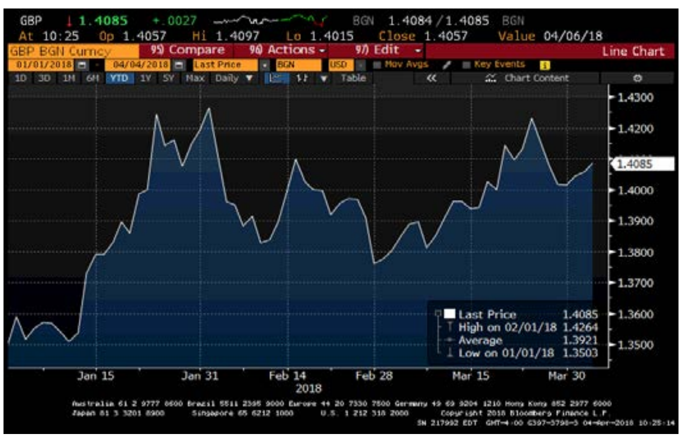
- The U.S. Dollar tumbled in March by more than half a percent after wild market swings
- Overall solid domestic figures painted a good economic picture, but no benefits to USD
- Federal Reserve officials proceeded with tightening path by hiking the interest rate to 1.75%. Chairman Powell signaled confidence
- European Central Bank removed language from its policy regarding “adding further easing as needed.” No rate change, yet
- The Mexican Peso established itself as the strongest performing currency amongst the majors. Up 7.25% thus far in 2018

Tempus’ view

- “Trade War” headlines will keep the greenback from gaining ground as instability to free commerce casts doubt on outlook
- The Euro may see a decline if underwhelming economic data continues into April. Slow Q1
- A NAFTA deal may be in the works for mid-April, thus more anxiety for CAD, maybe MXN
- The Yen could be propelled further as it plays safe-haven and Bank of Japan sells bonds
- Long-term the buck is looking feeble as political distractions, trade conflicts, and lack of correlation with Fed agenda cause uncertainty

IN FOCUS

Pound Sterling demonstrates historical ability to recover quickly



Year-to-Date GBP has shown that no obstacles can sink it, yet

- The U.K. may be facing one of the biggest challenges in its history, but Brexit negativity has failed to prevent a recovery in FX value
- Pound has gained vs the U.S. Dollar for the last 14 years straight in April, with an average of 2.2% performance since 2010
- European Union officials want to cooperate, but have made clear their stipulation unlike their U.K counterparts
- The “Quid” ranks as the fifth strongest currency against the greenback for 2018, but we think trouble remains and depreciation is possible

THE VIEW – The swings of March to continue as trade issues top headlines

Equity markets have taken the cake on wild fluctuations, but FX uneasy over free trade

It seems like many countries are safe from trade barriers, but American tariffs were indeed imposed to metals and other products coming from China. The back-and-forth between the world’s two largest economies has started after the U.S. claimed that for years China has taken advantage and failed to meet its part in making sure trade is conducted fairly. Disadvantages in commerce as well as currency manipulation have been cited, various industry leaders have spoken, and doom-scenarios have been projected all as result of this new stance. More importantly, the USD has carried the burden and a healthy economy is being overshadowed.

It feels safe to say now that the positive correlation between U.S. Dollar appreciation and increases to interest rates has faded because the latter has not helped the former. So far this year, the Fed has acted in line with its telegraphed message of gradual rate increments after adding 25 basis points to its benchmark rake during their meeting on March 21st. New Federal Reserve Head Jerome Powell spoke candidly about the economy during his first press conference explaining the Fed's determination to tighten. Nevertheless, good numbers are simply not convincing traders out there who have increased their foreign currency reserves and shed dollar positions.

The uncertainty does not come from worries over American progress, but rather from the potential for significant repercussions to the tough stance regarding trade with China. President Donald Trump has announced tariffs on aluminum and steel, other raw materials and manufactured products. Consequentially, the Chinese have hit back with counter-measures of their own, primarily impacting agricultural and other finished goods that they import from us. Naturally, economists are analyzing the effects that this could have on global growth down the line since many experts are already drawing some ugly conclusions. We are on a wait-and-see mode on these trade developments as plenty of mixed signals have been thrown at us. First, it seems like the U.S. wants to use some leverage over China and force better terms with these costly tariffs. Second, China is supposedly working on being a bit more transparent and even agrees with the U.S. that it should loosen financial services controls. What is clear is that trade instability is not a boost to the dollar as a safe-haven; instead it adds to concerns over potential for an economic slowdown, which is a dollar negative.

Not all is bad on the U.S. front and while the dollar seems mostly down, it is surviving threats to its stability because of economic consistency. Gross Domestic Product growth in Q4 of 2017 was revealed to have expanded more than the original reading of 2.5% when its third and final revision on March 28th came in at 2.9%. Additionally, Industrial Production increased by 1.1% in February, exceeding a low estimate of 0.4% and Durable Goods also jumped by 3.1% over 1.6% expected. Consumer Price Index, which measures inflation, stayed at an average of 2.2% for the year, more than satisfying the Fed's hopes for growth over 2.0%. Wall Street may be in havoc as scandals in tech have caused risk-aversion along with the trade conflicts, but indicators are not falling and this is holding the dollar together while it bleeds to its European rivals.

Confidence in Europe continues to keep the Euro afloat as it improved by 1.3% in March. The much awaited ECB meeting resulted in no change to interest rates or amount of quantitative easing, but ECB President Mario Draghi explained that the need to inject further aid to the financial system may be over. Central bankers seem to believe the need for fiscal stimulus is more important after years of intervention monetarily. We agree that the European continent should be content, but the currency could see some downward action as Q1 failed to impress. Considering how the ECB has hesitated to disrupt the accommodative environment in which economic activity has thrived, we believe that the dollar could recover some of its losses based on divergence in economic performance. We will monitor German data since lately Retail Sales have been awful there and confidence has dwindled.

NAFTA remains another problematic factor as free commerce is concerned, but it has mainly affected the "loonie." Domestic struggles in our northern neighbor's land has added pressure on CAD, which saw a loss of 2.2% in the middle of the month, which mostly vanished by end of the month after the announcement that Canada would be exempt from any new tariffs and that re-negotiations were going well. On that note, we feel swings are here to stay and our predictions have proven to be accurate. Tempus ranks as the #1 forecaster of USD/JPY and #3 on USD/CAD for Q1 of 2018 per Bloomberg against other 70+ financial firms.