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## IN BRIEF

### What happened

- Per the Bloomberg Dollar Spot Index, the greenback recovered by 1.5% in February
- The Canadian Dollar fell the most among the G-10, 4.6%, with disappointments in data and NAFTA negotiations
- Japanese Yen saw gains of 2.5% and reached its best levels since end of 2016
- Risk-aversion and volatility returned to global markets with concerns over higher borrowing costs
- Our outlook for February accurately foresaw the dollar's return as safe-haven and the collapse of the Pound on Brexit havoc

### Tempus' view

- Central banks will meet and announce that tightening is coming, but very cautiously
- Political headlines over Germany, Italy, and Brexit will keep EUR & GBP under pressure
- Threats to NAFTA and other trade barriers will mean wilder swings and potentially disrupt the U.S. Dollar's momentum
- Volatility may further aid the Yen as the Bank of Japan readies for some tightening
- The bets on long-term Euro appreciation may fade if European Central Bank displays hesitation to end quantitative easing this year

## IN FOCUS

### *Brexit process showing no mercy, no progress: Sterling down by 3.8%*


### *Domestic politics getting in the way of a clear strategy. Prime Minister in trouble*

- Everyone from Foreign Secretary Boris Johnson to the lowest-ranked Conservative believes PM Theresa May should quit
- An optimistic Bank of England on the economy could not deter Brexit issues from negatively impacting the British Pound
- A 119-page Brexit draft agreement published by the EU set the record straight on the demands for a smooth exit. May dismayed
- The Labour Party could come to power as talks regress and the path towards fully leaving gets murkier

## THE VIEW – U.S. Dollar experiences gains as markets sour

### *Investors are questioning whether the global economy can handle higher interest rates*

Markets had a good time while recovering after the financial crisis because of easing measures that allowed economic activity to pick back up. Those times may be coming to an end and the rally on Wall Street slowed down big time. When central banks chose to exercise various options, like bond purchases, to facilitate credit, shares of equities rose as businesses felt confident they could beat the slump. Now that that aid in the form of monetary policy is planned on being taken away, stock indexes reacted rather poorly. The rout has also been exacerbated by concerns that growth could suffer with higher costs, which boosted the buck.

In some ways, the U.S. Dollar returned to its role as a safe-haven asset. Equity markets felt uneasy throughout the month as it became clear to investors that monetary easing will no longer be pouring in to keep the environment accommodative. Additionally, analysis over what may come in terms of fiscal expenditures did not satisfy traders who feel that the effects form the tax cuts and a new budget may not be of great significance for growth. Nevertheless, February saw a change of the guard with Jerome Powell coming in to replace Janet Yellen as Federal Reserve Head and his testimony to congress late in the month renewed confidence in the Fed's outlook, which also drove the dollar higher. Statistics certainly helped mid-month as the dollar saw an immediate gain from better than expected Retail Sales and inflationary growth as Consumer Price Index is now annually growing at a 2.1%, above where the Fed wants it. The reality of upcoming hikes is taking its toll on shares of securities, but the greenback is stronger as the promise of higher returns on USD-denominated assets is here. Chances for 25-basis-points hikes at the March 21st and June 2nd meetings stand slightly above 85.0%.

In Europe, there were mixed economic indicators that signaled a bit of a slowdown in the kind of good performance that would merit higher rates form the European Central Bank. As an example, inflation remains relatively low just reaching a 1.2% pace, way below the 2.0% target set by the ECB. There was also a slowdown in consumption activity, retail sales, and confidence. Furthermore, dovish commentary from decision makers such as Bundesbank Chair Jens Weidmann helped in sinking the shared currency. He believes, like others around him, that the current state of easing per month and low interest rates should remain for much longer in order not to disrupt the state of activity. Many like him argue that it took a long time for business activity to normalize and now that it is thriving, pulling the plug may create unnecessary financial obstacles. We believe that when it comes time to decide, the ECB will stay on its wait-and-see approach and delay any moves until after September, when QE is still planned on being entirely reduced to zero. Additionally, the Euro will have to deal with political headaches as German headlines focus on Angela Merkel's ability to run the German state for a fourth term and Italy attempts to form its own coalition after tight elections as well. We think the common currency is in a vulnerable state with populism fomenting doubt once more about the EU's long-term sustainability.

Brexit news keeps on being a roller-coaster ride that sees no end in sight after a month of turmoil between leadership of all parties. The Prime Minister is torn as the EU adds pressure on Britain to accept their vision of a softer exit, but folks in the U.K.'s Conservative Party mock May's inability to push a tougher agenda. A complete abandonment of rules, commercial ties, and regulations will not be achieved, but plenty of members in May's party see her as too incompetent to deliver on all these demands. Originally, May had not supported leaving, but her attempts at compromise have turned against her every time she tries to summarize and clarify where the U.K. stands. The border with Ireland is at stake, jobs could flee rapidly without replacement, and production could start suffering soon as businesses cannot cope with the uncertainties surrounding the serious separation. More importantly, the EU's position is clear: The U.K. will suffer dramatic economic consequences if it does not stay within EU law for a little while and accepts some inclusion in the customs union. Every week things get more confusing, but this all may lead to a revamp in leadership of who leads the talks. We think Sterling is very resilient, but foresee further obstacles for Pound strengthening especially if the Fed hikes rates in March, which is almost guaranteed.

At the time of writing, global markets were hit with developments that the U.S. was planning on adding a 25.0% tariff on steel imports as well as 10.0% on aluminum. With news changing and now some statements regarding how some exemptions may be made to the added costs, it is hard to tell if the dollar will depreciate much from it.