The lessons from exchange rates

Nominal trade-weighted exchange rate indexes (100 = January 2016)


- **Key drivers:** Exchange rates reflect many factors, including the stance of a country's monetary and fiscal policies relative to that of its partners, supply-side reforms, long-term growth expectations and perceptions of risk.
- **US policies boost the greenback:** Gradual rate hikes, a fiscal stimulus and the pro-growth impact of deregulation and fiscal reforms have supported the US dollar so far this year. As the ultimate safe haven for global capital, the dollar also attracts additional inflows in times of heightened tensions even if these tensions have been stoked by the US itself. Although US President Donald Trump may prefer a weaker US dollar to help contain the US trade deficit, his unsettling trade war threats tend to boost the external value of the US dollar instead.
- **Softer Chinese yuan reflects domestic and external pressures:** As the Chinese economy seems to have lost some momentum and the People’s Bank of China has modestly loosened its policy in response, the trade-weighted yuan has fallen in the past few months. Concerns about the impact of a US-China trade war may also weigh on the currency.
- **Battered by Brexit:** Sterling has turned into a Brexit story. Correctly interpreting the June 2016 decision to leave the EU as a negative supply shock that will constrain UK trend growth for the foreseeable future, markets downgraded UK assets via the exchange rate right after the vote. Since then, sterling has oscillated around this new lower level largely in response to shifting market perceptions about the outcome for Brexit and its impact on long-term growth.
- **The euro is largely stable amid the cross-currents:** When global tensions put markets into risk-off mode and trigger capital flight into the dollar, the euro usually falls against the greenback. But as other regions and currencies tend to be much more vulnerable to such tensions, the trade-weighted euro can remain fairly stable even in such times.
- **Back to risk-on mode in late 2018?** Last year, the US dollar fell despite Fed rate hikes as markets celebrated the absence of negative surprises in the first year of the Trump Administration. A growing appetite for risk encouraged capital flows out of the dollar. So far this year, markets have partly reversed some of last year's trends as trade tensions have dampened investor appetite for risk. We expect these tensions to fade somewhat later this year. With the Juncker-Trump armistice in the US-EU trade conflict, the US and the EU have taken a key step in this direction.
- **The US-Chinese conflict now takes centre stage:** If the current escalation turns into the prelude to serious negotiations later this year as the Chinese seek to limit the damage, markets could move back towards a more “risk-on” mode. If so, the euro could recover some of its losses versus the dollar in line with some rebound in Eurozone export expectations and business confidence. At the same time, the deal for a semi-soft Brexit which we expect the UK and the EU27 to strike late this year could lift sterling by a couple of cents.
Disclaimer

This document was compiled by the above mentioned authors of the economics department of Joh. Berenberg, Gossler & Co. KG (hereinafter referred to as “the Bank”). The Bank has made any effort to carefully research and process all information. The information has been obtained from sources which we believe to be reliable such as, for example, Thomson Reuters, Bloomberg and the relevant specialised press. However, we do not assume liability for the correctness and completeness of all information given. The provided information has not been checked by a third party, especially an independent auditing firm. We explicitly point to the stated date of preparation. The information given can become incorrect due to passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. The forecasts contained in this document or other statements on rates of return, capital gains or other accession are the personal opinion of the author and we do not assume liability for the realisation of these.

This document is only for information purposes. It does not constitute investment advice or recommendation to buy financial instruments. It does not replace consulting regarding legal, tax or financial matters.

Remarks regarding foreign investors

The preparation of this document is subject to regulation by German law. The distribution of this document in other jurisdictions may be restricted by law, and persons, into whose possession this document comes, should inform themselves about, and observe, any such restrictions.

United Kingdom

This document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

United States of America

This document has been prepared exclusively by Joh. Berenberg, Gossler & Co. KG. Although Berenberg Capital Markets LLC, an affiliate of the Bank and registered US broker-dealer, distributes this document to certain customers, Berenberg Capital Markets LLC does not provide input into its contents, nor does this document constitute research of Berenberg Capital Markets LLC. In addition, this document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

This document is classified as objective for the purposes of FINRA rules. Please contact Berenberg Capital Markets LLC (+1 646 949 9000), if you require additional information.

Copyright

The Bank reserves all the rights in this document. No part of the document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without the Bank's prior written consent.

© 2018 Joh. Berenberg, Gossler & Co. KG
**Contacts**

**EQUITY RESEARCH**

**ASDOPAC & DEFENCE & CAPITAL GOODS**
- Ryan Brotzki (+44 20 3753 3074)
- Andrew Collan (+44 20 3207 7991)
- Rose Law (+44 20 3460 0102)

**AUTOMOTIVE**
- Christian Dapper (+44 20 3465 2371)
- Alexander Hessel (+44 20 3465 2740)
- Velikora Dzhidzhieva (+44 20 3207 7860)
- Fei Teng (+44 20 3753 3049)

**BANKS**
- Adam Barnes (+44 20 3207 7832)
- Stephanie Carter (+44 20 3207 3046)
- Michael Christodoulopoulos (+44 20 3207 7850)
- Aler Misbuduf (+44 20 3753 3047)
- Eoin O'Donovan (+44 20 3207 7564)
- Peter Richardson (+44 20 3465 2681)

**BEVERAGES**
- Javier Gonzalez Lasanta (+44 20 3465 2779)
- Matt Reid (+44 20 3753 3070)

**BUSINESS SERVICES, LEISURE & TRANSPORT**
- Zaan Beekwala (+44 20 3207 7655)
- Tom Bulfin (+44 20 3207 7602)
- Roberta Dasico (+44 20 3753 7205)
- Nabi El Ksairi (+44 20 3753 7365)
- William Fylan-Hoover (+44 20 3465 2642)
- Stuart Gordon (+44 20 3753 7668)
- Annabel Ho-Wijaya (+44 20 3465 2770)
- Josef Spurgin (+44 20 3753 7667)
- Adrian Yanevski (+44 20 3753 9375)

**CAPITAL GOODS**
- Nicholas Hudikian (+44 20 3753 4350)
- Sebastian Kuehne (+44 20 3753 7865)
- Philipp Leutenegger (+44 20 3753 7862)
- Rick Maier (+44 20 3753 7866)
- Jaroslav Pominkiewicz (+44 20 3753 6036)
- Simon Toosenaas (+44 20 3753 7699)
- Efthan Zhang (+44 20 3465 2056)

**CHEMICALS**
- Sebastion Bros (+44 20 3753 3002)
- Anthony Manning (+44 20 3753 3042)
- Brian Poul (+44 20 3465 2700)

**CONSUMER STAPLES**

**CONSUMER DISCRETIONARY**

**EQUITY SALES**

**SPECIALIST SALES**
- ASDOPAC & DEFENCE & CAPITAL GOODS
  - Carlos Lanzoni
- AUTO & TECHNOLOGY
  - Edward Bates
- BUSINES SERVICES, LEISURE & TRANSPORT
  - Rebecca Langlois
- CONSUMER DISCREPANCIES
  - Victoria Magor
- CONSUMER STAPLES
  - Ramnique Sosa
- HEALTH CARE
  - David Hodg (+44 20 3465 2308)
- THEMATICS
  - Chris Armstrong (+44 20 3207 7850)

**SALES**

**SALES TRADING**

**LONDON**
- Antoine Gaultier (+44 20 3207 7808)
- David Mortlock (+44 20 3207 7750)
- Suzy Khan (+44 20 3465 2628)

**MILAN**
- Marco Weiss (+44 20 3465 2670)
- Anna Pollard (+44 20 3207 7963)
- Omer Ismail (+44 20 3753 3052)
- Omer Ismail (+44 20 3753 3052)
- Alexander Pham (+44 20 3753 7862)
- Tricia Reid (+44 20 3753 7861)

**MUNICH**
- Joseph Beatty (+44 20 3753 7861)
- Callum Battersby (+44 20 3465 2618)
- Laura Janssens (+44 20 3465 2639)
- Laura Janssens (+44 20 3465 2639)
- Laura Janssens (+44 20 3465 2639)

**MURCIA**
- Michael Stein (+44 20 3465 2643)

**MUNICH**
- Kevin Nor (+33 1564 4650)
- Marco Weiss (+44 20 3465 60 79)

**UK**

**GERMANY**

**SWITZERLAND, AUSTRIA & ITALY**

**THEMATIC RESEARCH**
- Joachim Dier (079 61 30 74 14)
- Rita Buchert (+44 20 3465 2650)
- Carole Schmohl (+44 41 260 2019)

**INSURANCE**

**TECHNOLOGY**

**REAL ESTATE**

**THEMATICS**
- Fabian De Greve (+44 20 3753 7910)
- Jesper Sten (+44 20 3753 2629)
- Katie Ferry (+44 20 3753 3041)
- Neel Haemmen (+44 20 3753 3270)

**TECHNOLOGY**

**REAL ESTATE**

**THEMATICS**
- Henry Jevrai (+33 244 33 20 93)
- Steffen Lennart (+44 20 3207 7850)
-酒业 Moid (-44 20 3465 2639)

**THEMATICS**

**TECHNOLOGY**

**REAL ESTATE**

**THEMATICS**
- Dave Mortlock (+44 20 3465 2670)
- Omer Ismail (+44 20 3753 3052)
- Alexander Pham (+44 20 3753 7862)
- Tricia Reid (+44 20 3753 7861)

**SALES**

**SALES TRADING**

**LONDON**
- David Hohn (+44 20 3465 60 78)
- Dorothea Seiden (+44 41 260 2019)
- Martin Comtesse (+44 20 3753 7878)

**EQUITY TRADING**

**ELECTRONIC TRADING**
- Oliver Davis (+44 20 3465 2691)
- Mathias Fuhr (+44 20 3465 2691)
- Sven Kroneberg (+44 20 3465 2691)
- Matthias Schuster (+44 20 3465 2691)