

# G10 FX Weekly

## Monetary policy divergence back on

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- **Euro loses its shine and the US dollar is back in favour**
- **...because investor sentiment improved...**
- **...and monetary policy divergence is in focus again**

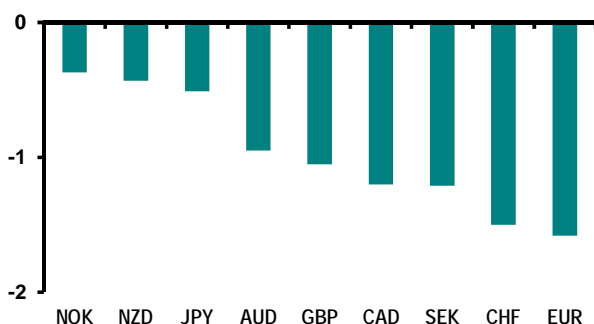
### Euro under pressure at last...

In previous reports we highlighted that the euro was very resilient to the Greek saga. This reflects that the increased uncertainty made investors somewhat risk averse and this hurt the US dollar, which mainly has been driven by cyclical factors. In addition, the prospect of a slower pace of rate hikes by the Fed also weighed on the US dollar. As a result investors reduced their excessive euro short positions. However, investors have hedged potential weakness in the euro via the options market instead (see our FX Convictions report to be released tomorrow).

This week's weakness of the euro has in our view nothing to do with the Greek saga but more with the fact that investors focused on monetary policy divergence again. This is also reflected in the behaviour of the Swiss franc, which weakened. If investors were very worried about Greece, it would be unlikely that the Swiss franc would have weakened. The monetary divergence between Europe and the US should push EUR/USD to parity in the coming months.

### Euro underperforms other major FX

Performance in % versus the USD, in USD terms



Source: Bloomberg, ABN AMRO Group Economics

### ...and a come-back of the US dollar

The US dollar clearly outperformed major currencies. Investor sentiment in currency markets became more constructive resulting in a refocus on themes such as monetary policy divergence. US economic data generally came in above

market consensus and Fed's Williams sounded more hawkish. This supported the US dollar across the board. Going forward, we expect US economic data to strengthen, the Fed to start hiking rates in September and the US dollar to strengthen broadly. We expect EUR/USD to fall to parity and USD/JPY to rise to 128.

### Prospect of weaker economy weigh on NZD and AUD

The New Zealand dollar (NZD) eased lower as market expectations that the Reserve Bank of New Zealand (RBNZ) will cut the Official Cash Rate by 25bp to 3.0% in the next monetary policy meeting in July increased (OIS market implied probability has increased from 50% to 75% in the past week). This was due to the government declaring that flooding in the North Island, as a medium scale adverse event for the primary sector. In addition, dovish comments from Prime Minister Key that it is difficult for the central bank to meet its 2% inflation target raised market speculation that the central bank will need to increase monetary stimulus sooner than later. We maintain our view that the RBNZ will lower the OCR to 2.75% and the NZD/USD to decline towards 0.65 by the end of this year.

The Australian dollar (AUD) was also not spared as recent domestic data releases reinforce our view that the economic recovery remains fragile. Weak economic data in China also weighed on sentiment in the AUD.

### ABN AMRO major currency forecasts

	25-Jun	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
EUR/USD	1.1196	1.00	1.00	1.05	1.05	1.10	1.15
USD/JPY	123.67	125	128	130	135	135	135
EUR/JPY	138.47	125	128	137	142	149	155
GBP/USD	1.5682	1.47	1.49	1.52	1.50	1.51	1.51
EUR/GBP	0.7140	0.68	0.67	0.69	0.70	0.73	0.76
USD/CHF	0.9337	1.05	1.05	1.00	1.00	0.95	0.96
EUR/CHF	1.0454	1.05	1.05	1.05	1.05	1.05	1.10
AUD/USD	0.7737	0.73	0.72	0.70	0.68	0.67	0.66
NZD/USD	0.6906	0.69	0.65	0.65	0.63	0.62	0.62
USDCAD	1.2389	1.27	1.30	1.31	1.33	1.34	1.35
EUR/SEK	9.2343	9.50	9.50	9.50	9.50	9.50	9.50
EUR/NOK	8.7878	9.00	8.50	8.50	8.25	8.00	8.00
EUR/DKK	7.4602	7.46	7.46	7.46	7.46	7.46	7.46

Source: ABN AMRO Group Economics

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

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