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## USD remains in favour

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- **US dollar remains in favour...**
- **...and net long dollar positioning is far from extreme**
- **The outlook on EUR/USD remains negative because of monetary policy divergence**

### Long dollar theme remains in place

The US dollar strength remained a theme in the past week as investors continue to position for a Fed rate hike. The FOMC minutes, which came in around expectations, did not change this market behaviour. However, investors seem to have taken some profit on long US dollar positions following the release of the minutes probably because of signs that the Fed will only hike at a very modest pace. We judge that this profit taking is only temporary. Net long US dollar positions are sizeable, but far from extreme levels. We expect further strength in the US dollar in the coming months as financial markets have not fully priced in that the Fed will raise the Fed funds target rate by 25bp later this year in December. Currently financial markets estimate a probability of 66%. So there is clearly more room.

### US dollar trade weighted index



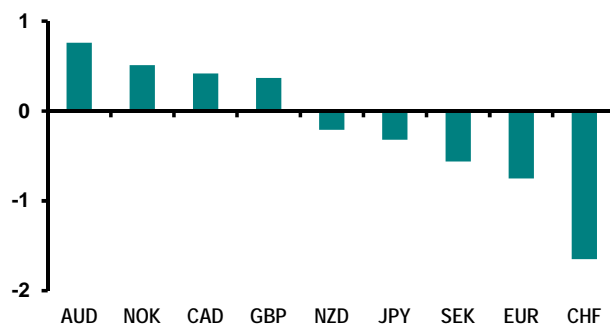
Source: BIS, ABN AMRO

In addition, we expect the ECB to lower the deposit rate by 10bp to -0.3% later this year in December. We expect the ECB to increase the size of its asset purchase program from EUR 60bn a month to EUR 80bn. The deadline of the QE program is also likely to be extended beyond September 2016. As a result of this monetary policy divergence, we

expect EUR/USD to test the March low just below 1.05. Our year-end forecast is 1.05. We expect the downtrend to continue next year to 0.95. Other currencies where central banks that are likely to step up or continue monetary policy easing such as Swiss franc, Swedish krona and Japanese yen have also moved lower. In the case of the Norwegian krone some stabilisation of the oil price, albeit at low levels, and the stronger-than-expected GDP number have resulted in a lower likelihood of more monetary policy easing.

### This week's performance

% with USD as basis



Source: Bloomberg, ABN AMRO

### We remain negative on AUD and NZD

In Australia, weak wage growth, slower house price inflation and lacklustre terms of trade is likely to trigger another rate cut in early 2016, as this is not fully priced in by financial markets. Therefore, we judge that any recovery in the Australian dollar is an opportunity to position for more price weakness later down the road. Our year-end forecasts for 2015 and 2016 are 0.70 and 0.62, respectively. We also maintain our view that the RBNZ is likely to lower the Official Cash Rate by 25bp next month as the relief recovery in dairy auction prices in previous months has reversed. In addition, inflation expectations have started to decline and the NZD remains stronger than the central bank's forecast. Our year-end forecast is 0.64 is approaching.

### ABN AMRO major currency forecasts

	19-Nov	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
EUR/USD	1.0687	1.05	1.00	0.95	0.95	0.95
USD/JPY	123.20	125	127	130	133	135
EUR/JPY	131.67	131	127	124	126	128
GBP/USD	1.5264	1.50	1.43	1.36	1.38	1.40
EUR/GBP	0.7002	0.70	0.70	0.70	0.69	0.68
USD/CHF	1.0190	1.05	1.10	1.18	1.20	1.21
EUR/CHF	1.0890	1.10	1.10	1.12	1.14	1.15
AUD/USD	0.7171	0.70	0.68	0.66	0.64	0.62
NZD/USD	0.6508	0.64	0.62	0.6	0.58	0.58
USD/CAD	1.3256	1.33	1.35	1.37	1.39	1.41
EUR/SEK	9.2939	9.50	9.50	9.50	9.50	9.50
EUR/NOK	9.2536	9.50	9.25	9.00	8.75	8.50
EUR/DKK	7.4601	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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