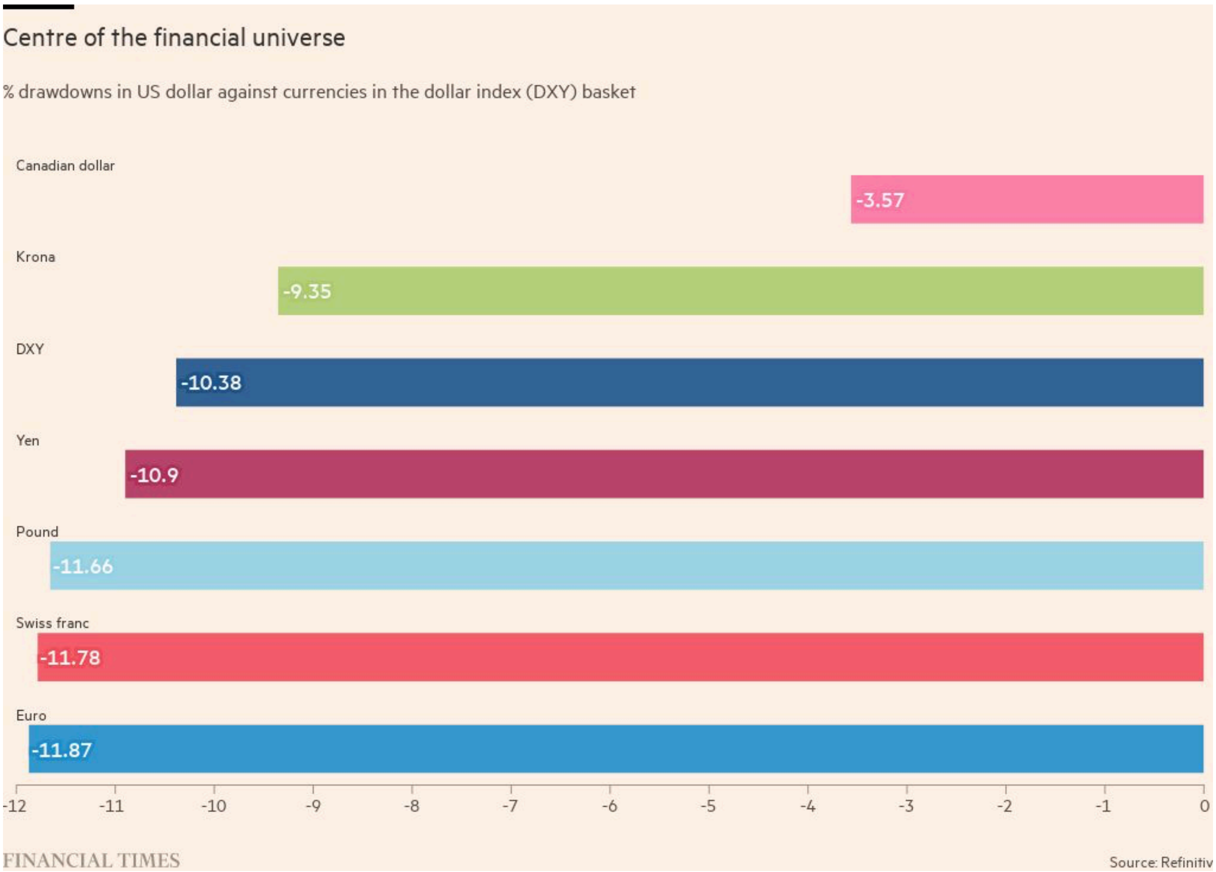
MACRO: US DOLLAR VS THE REST…

For example: Bloomberg's numbers consider Lstg (£) performance on a total return basis (meaning currency moves plus the prevailing risk-free rate), and so are boosted by the UK's higher policy rate, which is 75 bp above the eurozone's. However, analyzing value vs other currency prices, the £ does (despite +75bp) not over-perform.

The chart below shows how far the US dollar has depreciated against currencies included in the widely cited dollar index, since peak dollar strength last year:




The recent $ weakening is explained by the Fed's stand that indicates a rate increase slow-down and a subsequent pause . Preliminary data indicates slower growth, slower demand (albeit still strong labour market) and therefore further hikes. A pause in the UK and Eurozone, where inflation is higher and stickier , seems less likely.

In Japan, many reckon that yield curve control will be scrapped soon, letting rates rise. This will mean tighter rate differentials in Europe and Japan, drawing capital out of dollars and into euros, pounds and yen.

The big question in forex: is the dollar's downturn a short-lived retreat, or the start of a steady decline?

Two opposite opinions prevail , as usual. The US managing a soft landing with a mild recession and growth, thereafter, will lead to risk-on feeling and a rebound.

The other opinion is concern about disinflation. Inflation will eventually subside and mark the end of tightening due to the view of a slowdown of the US economy.

Our scenario is a very mild recession in the US and slowing growth across developed economies (not fully discounted in markets) and there the cautious optimism about a fresh rally in the US Dollar.

The recent devaluation of the US Dollar seems to be in the prices as we all know that asset prices move approximately (barring any major event) 6-9m ahead. Maybe, just maybe this could be a trade idea to start a long position in USD against a basket of currencies.

Source: FT, Bloomberg

—-