# Currency Management

November 2016

## Executive Summary

| Currency | Close 31.10.16 | Close 30.11.16 | Change vs USD |
|---|---|---|---|
| Japanese Yen | 105.08 | 113.94 | -7.8% |
| Euro | 1.0962 | 1.0608 | -3.2% |
| British Pound | 1.2209 | 1.2494 | 2.3% |
| Swiss Franc | 0.9889 | 1.0186 | -2.9% |
| Canadian Dollar | 1.3402 | 1.3446 | -0.3% |
| Australian Dollar | 0.7609 | 0.7388 | -2.9% |

## Currency Market Review and Outlook

All eyes this month were on the US election and the surprise result, which saw Donald Trump prevail. In an almost repeat of the UK referendum in June, the pre-election reaction was supportive for risk assets as both polls and bookmakers increased their probabilities of a Clinton victory. However, as the results began to appear it became apparent that the anti-establishment vote (like in the UK) was going to be a lot stronger than expected.

The immediate knee-jerk reaction after the result was risk off, with core government yields rallying and equity markets selling off. However, it only took a matter of hours for the market to reverse these views and look ahead to the potential expansionary policies from the new administration. Among major equity markets, the S&P 500 was the obvious beneficiary, returning 3.7%, while the Nikkei was the strongest performer, returning 5.07%. The DAX and FTSE, however, lagged and returned -0.23% and -2.00% respectively. Emerging market (EM) equities continued to perform poorly, with the MSCI Emerging Markets Index returning -4.60%. The 10-year US Treasury yield rose sharply and ended at 2.38%, 55 basis points (bps) higher than the previous month-end level. Bund and Gilt yields also spiked and ended at 0.27% and 1.42% respectively. Bund yields increased by 11bps and Gilt yields increased by 17bps.

In developed markets, implied currency volatility fell and risk appetite—as measured by our proprietary Risk Aversion Indicator—improved. With the exception of sterling, all other G10 currencies underperformed against the US dollar, as a result of investors pricing in highly probable central bank action and the market response to the presidential election result.

In the US, the Trump victory, combined with the double Republican sweep, drove the market moves. The Federal Open Market Committee left policy unchanged, this time with only two dissenters. Later in the month, Federal Reserve (Fed) chair Janet Yellen came out strongly in support of a rate hike in December. She mentioned that waiting for too long could result in the Fed having to tighten more abruptly in the future, which could threaten growth down the line. She further supported the case for a rate hike next month by highlighting that the economy was making progress towards the Fed's goals of maximum employment and price stability.

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The Bank of England left policy unchanged in a unanimous vote, explaining that a conditional rate cut this year had "expired" and that it could respond in either direction to changes in the economic outlook. Inflation was revised up, peaking at 2.9% in mid 2018 due to the weaker currency between forecasting periods. While growth was revised up in the near term, it was revised down further out due to inflation weighing on household real incomes.

The European Central Bank's October minutes showed that the economic outlook for the euro area remains a matter of concern and that the central bank is committed to keeping its asset purchase programme. The Bank of Japan and Reserve Bank of Australia also kept policy unchanged, with neutral stances. The former did, however, revise down its inflation forecasts, with an expectation of reaching its target sometime in fiscal year 2018.

In China, the decent improvement in industrial sales revenue and profit growth, especially in the upstream material and resource sectors, has likely supported overall manufacturing sentiment. Along with the improvement in the headline purchasing managers' index readings, the employment components have turned up lately.

All major EM currencies fared poorly against the US dollar in November. The Turkish lira was the worst performer, down 9.99% against the US dollar.



Source: J.P.Morgan Asset Management as at 30 November 2016