



July 2017

FX market outlook

Currencies

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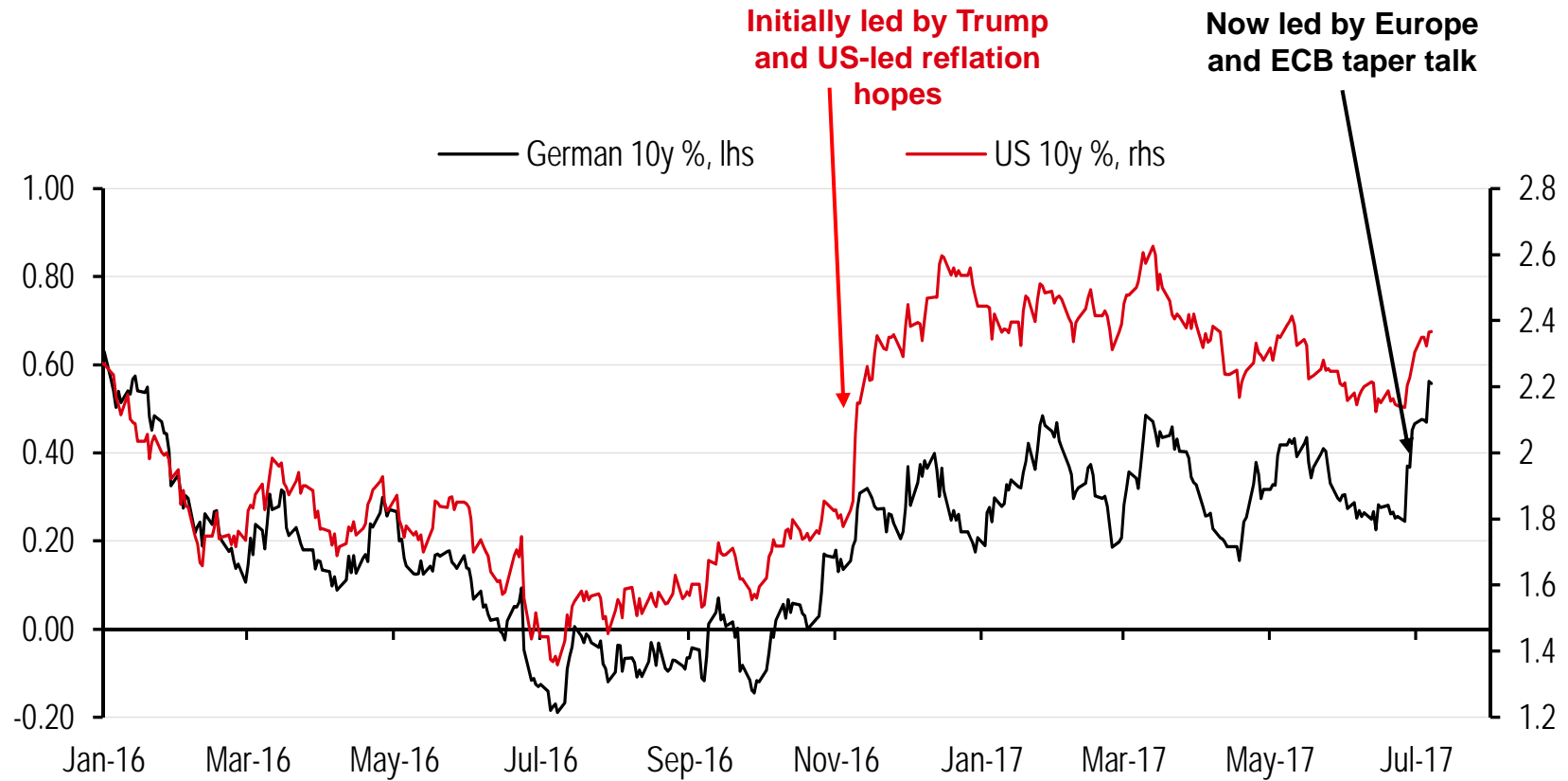
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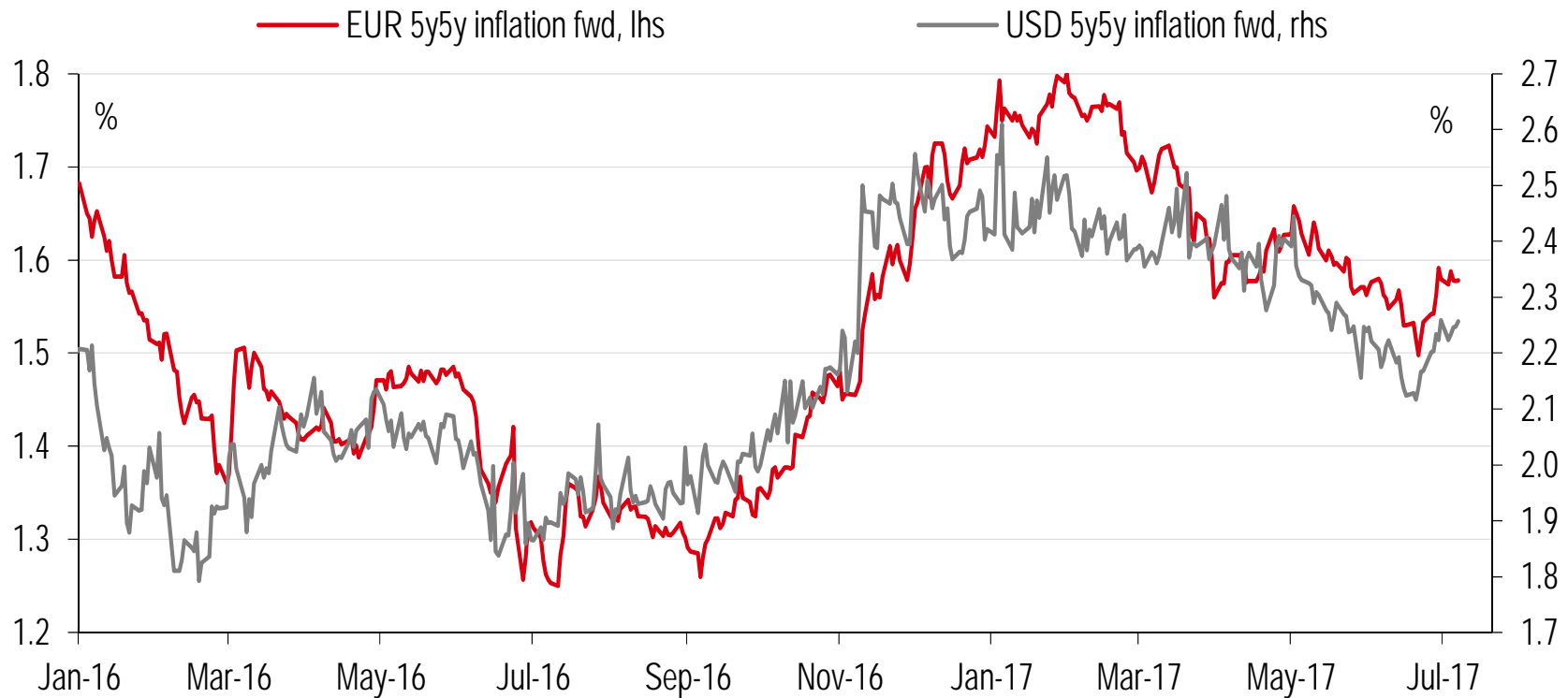
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Disclosure appendix, and with the Disclaimer, which forms part of it

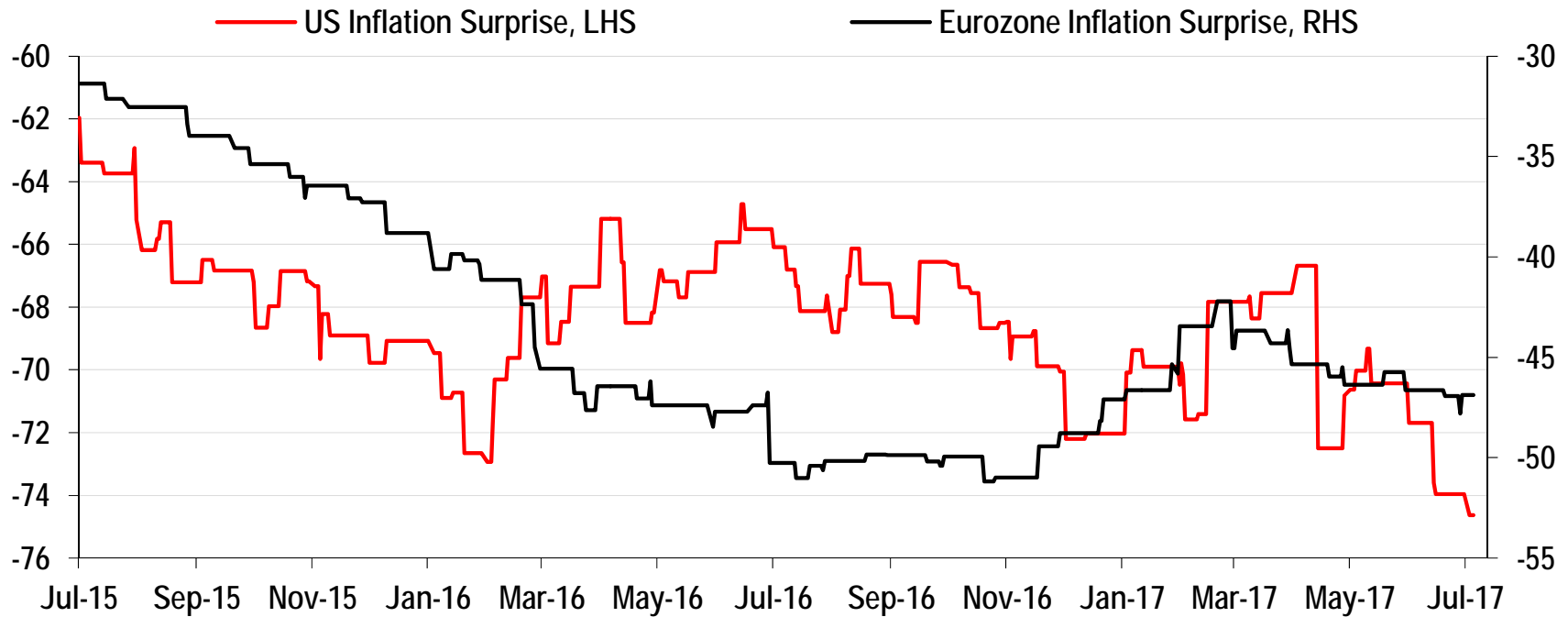
2. Significant uptick in G10 yields



3. But not because of inflation expectations

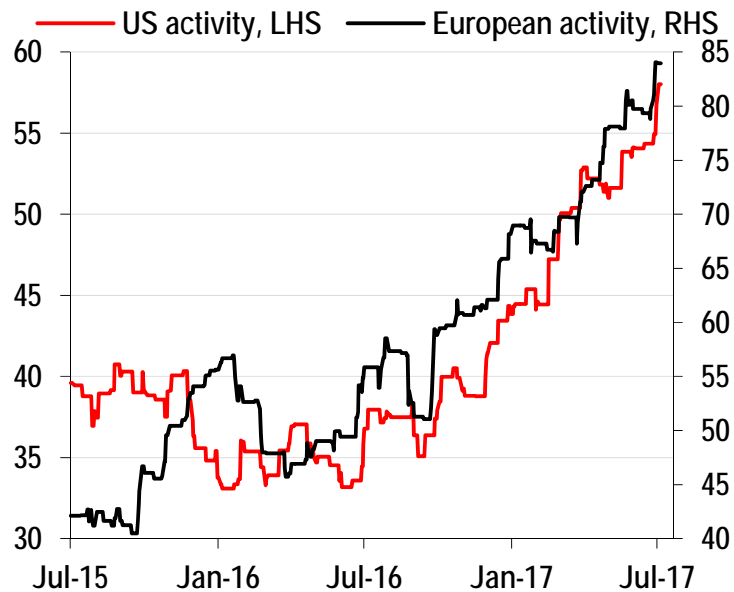


4. Inflation actually lower than expected

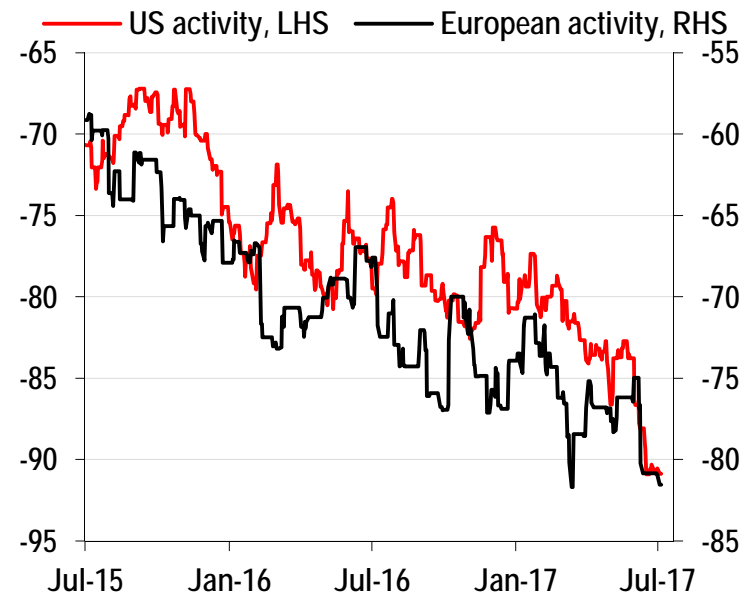


5. Global *cyclical* rebound could be fading

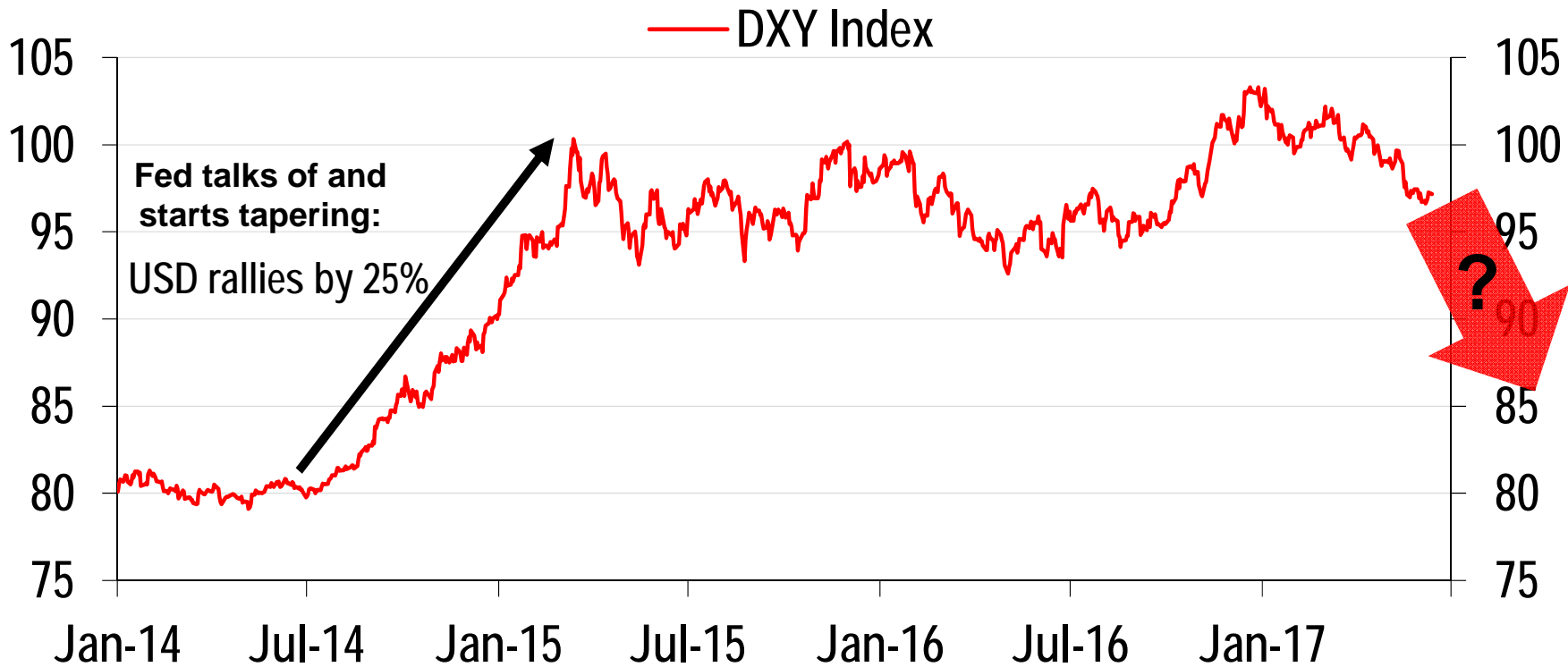
Survey data stronger than expected



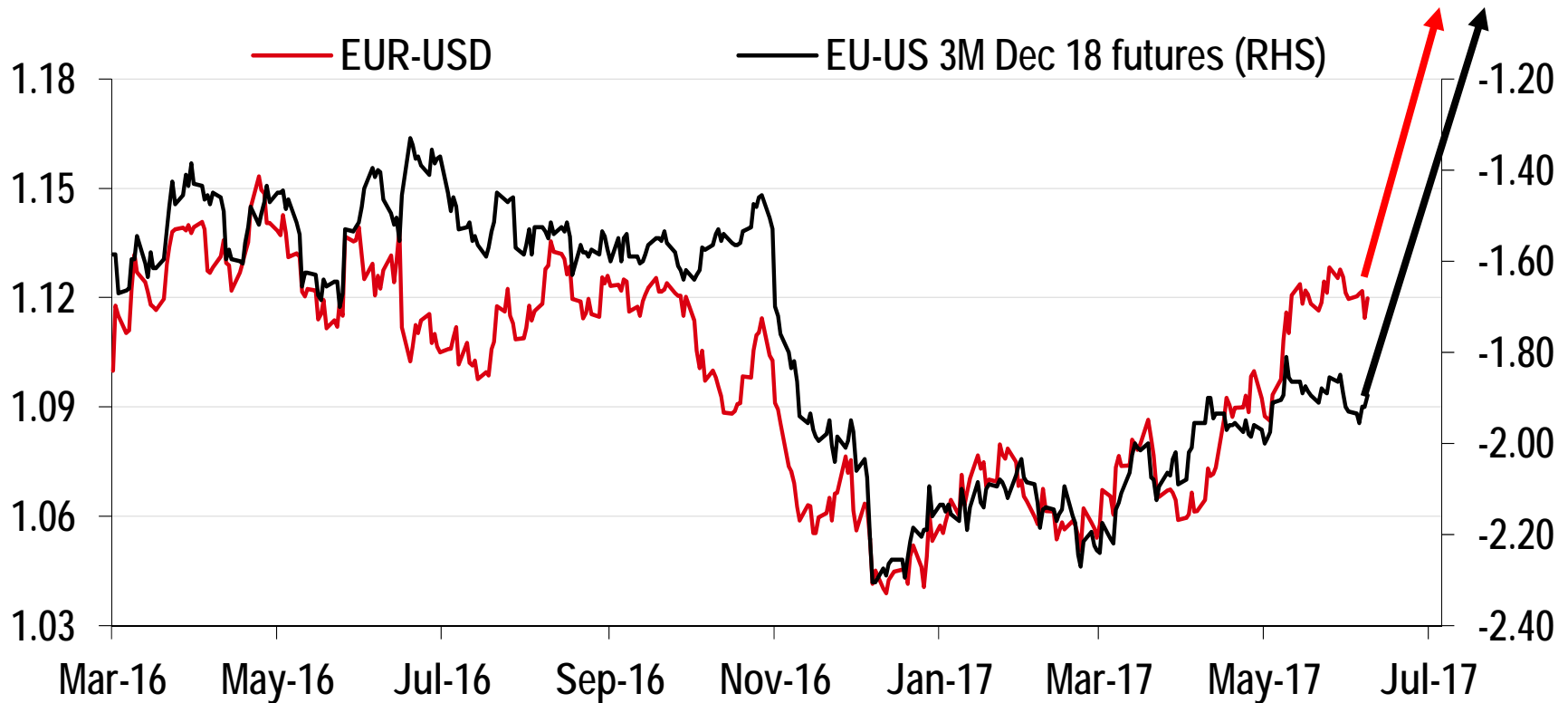
Hard data weaker than expected



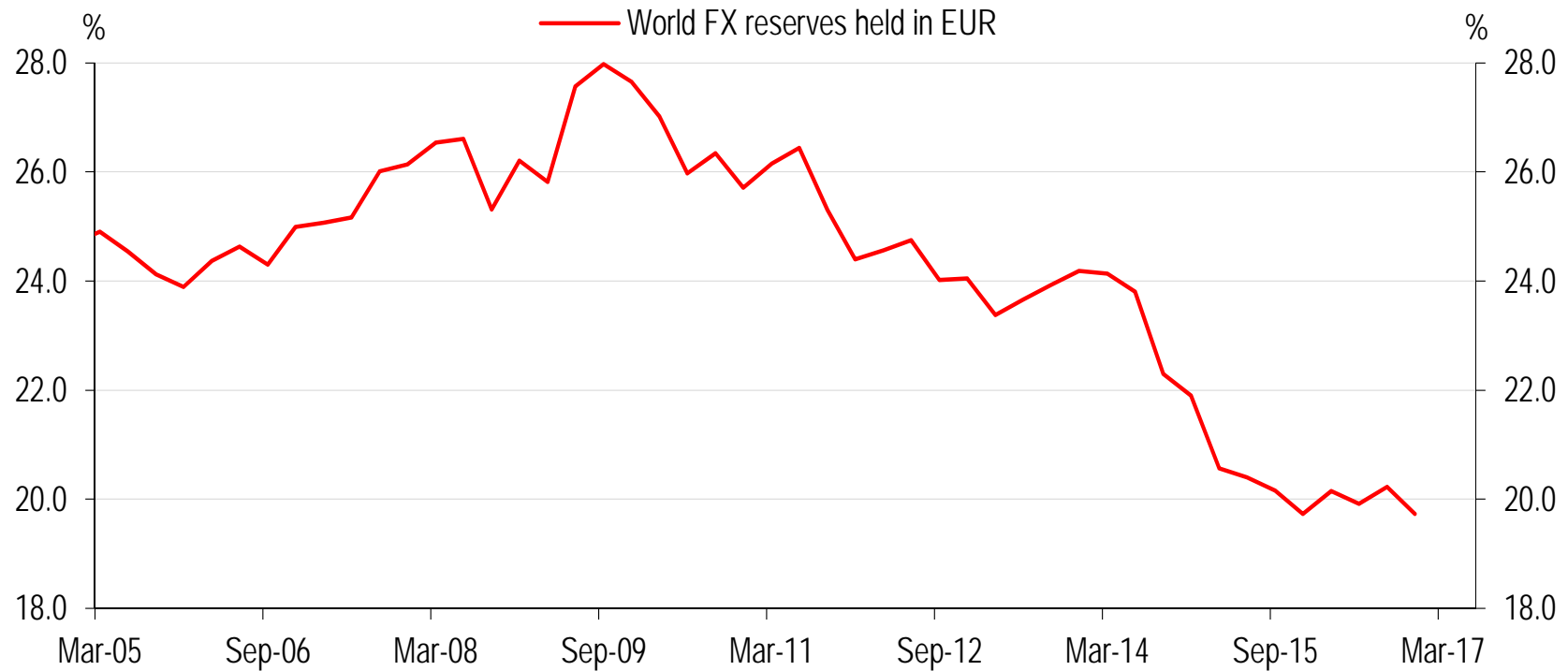
6. EUR to follow the USD's path when the Fed went towards "normalisation"



7. ECB normalisation to lead to EUR strength

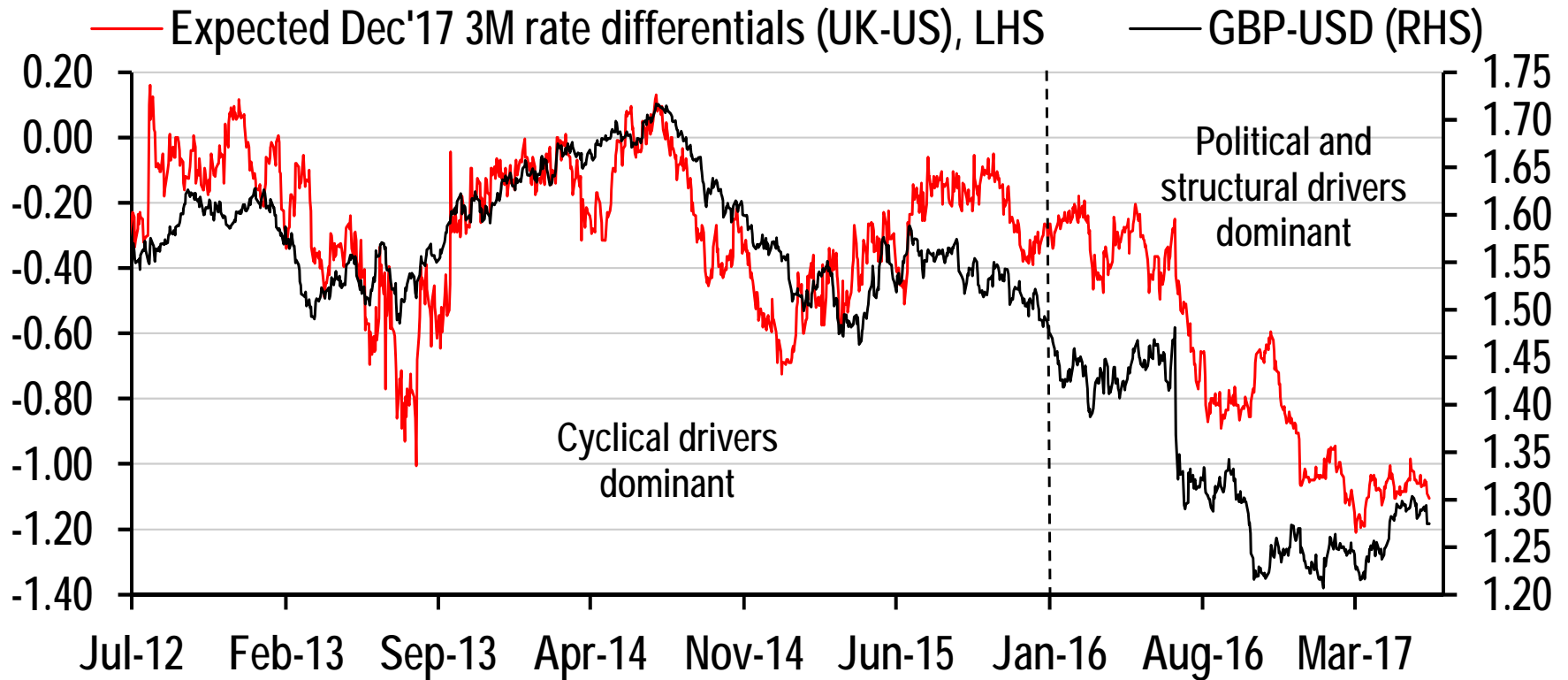


8. EUR is not as widely held as before



World reserves total around USD10trn: a rise in EUR holdings back to 25% could translate to USD500bn of demand for the single currency

9. GBP: less cyclical, more political



10. Politics: massive uncertainty on a deal

	EU	EEA	"Britzerland"	Customs Union	New FTA	No deal
Single Market	✓	✓	◇	✗	✗	✗
Free trade in goods/services	✓	✓	◇	◇	◇	✗
FTAs with 3rd parties	✗	✓	✓	✗	✓	✓
EU goods/services regulation	✓	✓	✓	✗	◇	✗
EU social/employment regulation	✓	✓	✓	✗	✗	✗
EU budget payments	✓	↓	↓	✗	✗	✗
Common Agricultural Policy	✓	✗	✗	✗	✗	✗
Free movement of people	✓	✓	✓	✗	✗	✗

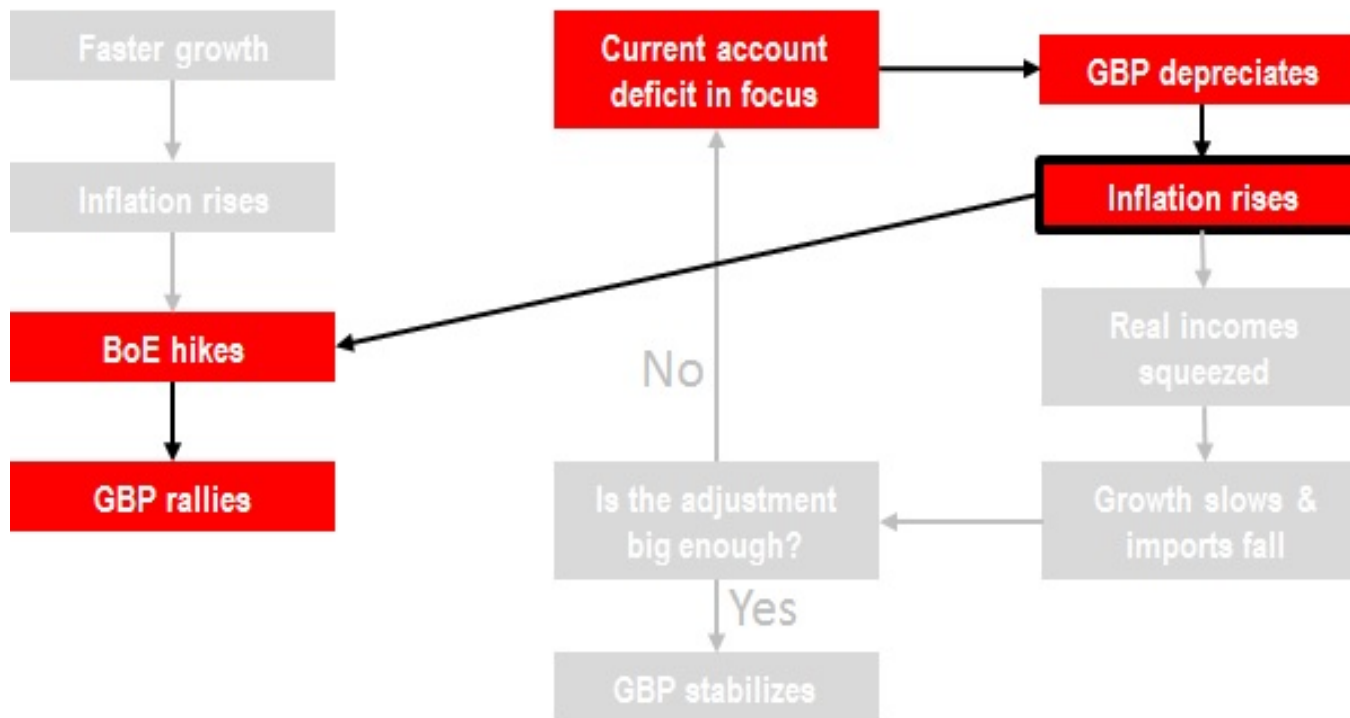
✓ = yes

✗ = no

◇ = grey area / mixed

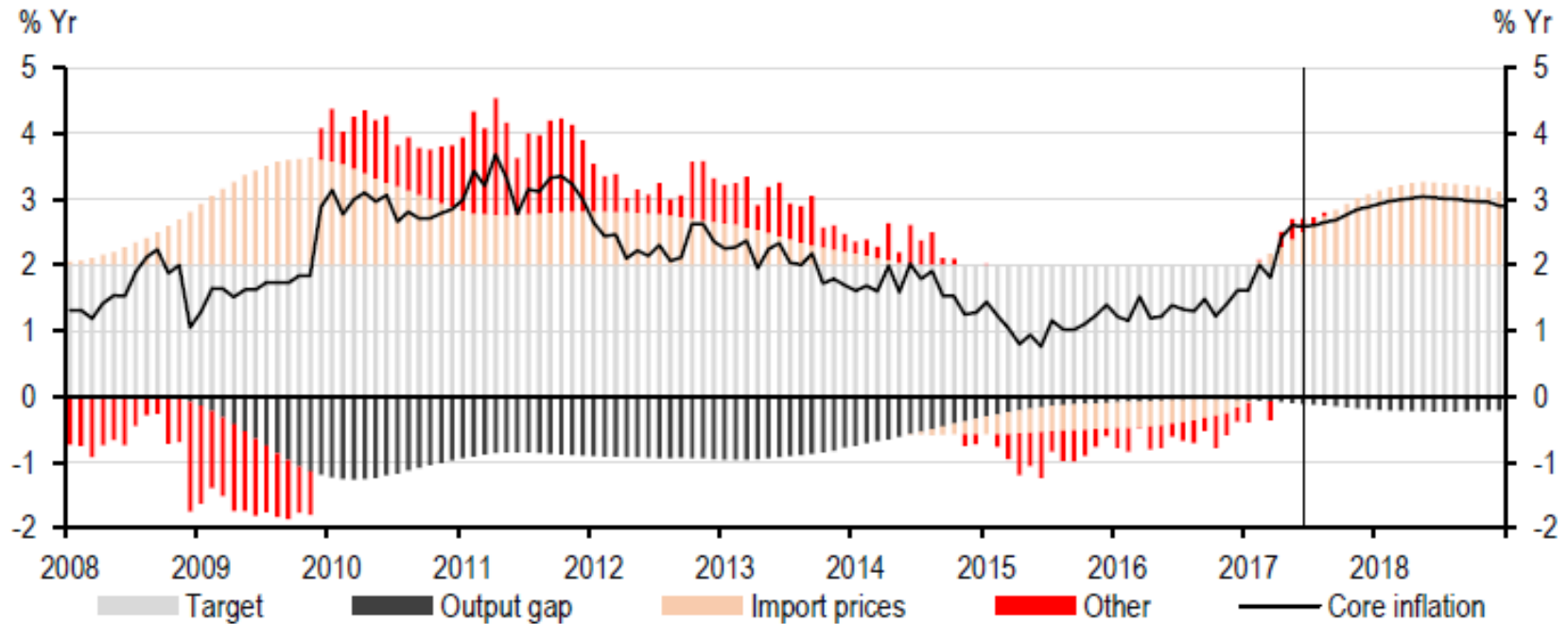
11. Cyclical: rate hikes would be misguided

Market confuses cyclical and structural



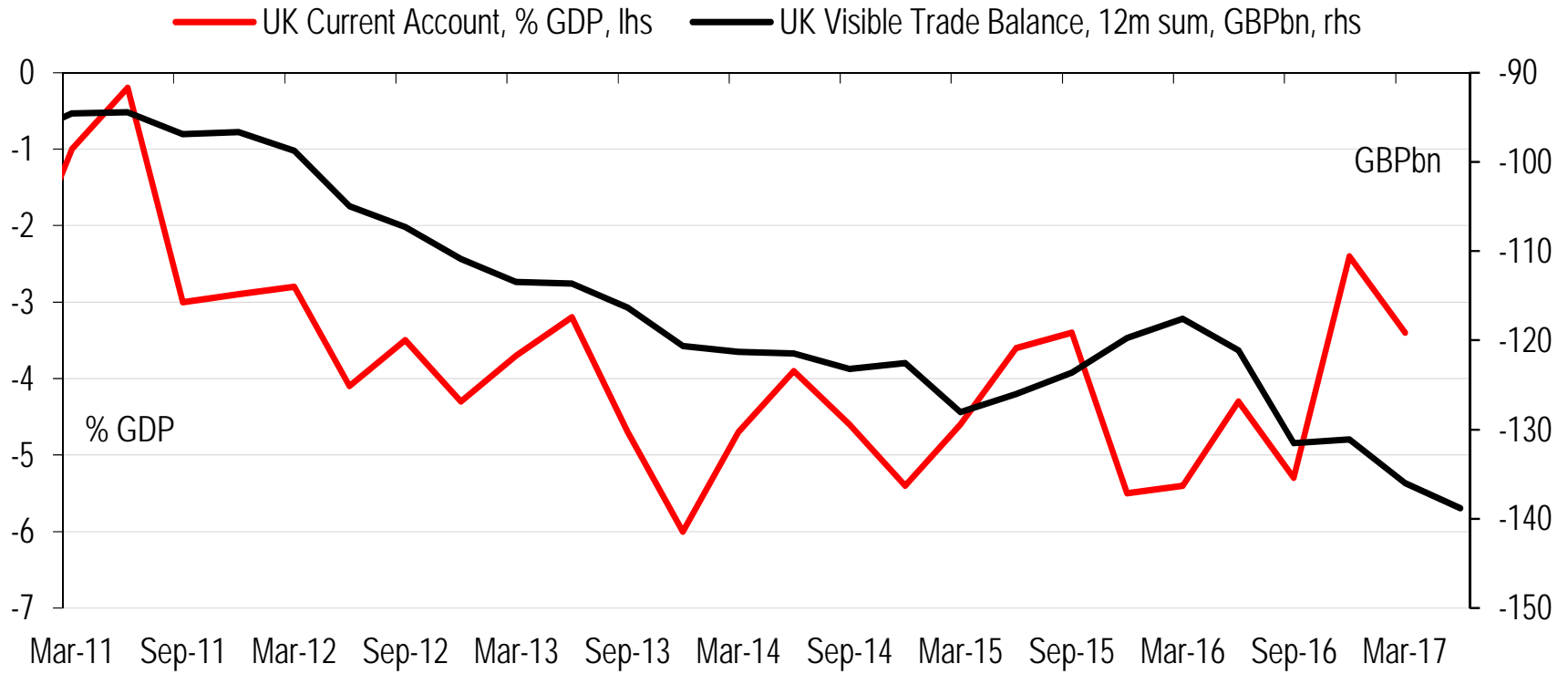
12. Cyclical: higher inflation solely FX-led

8. In our forecast, sterling effects are the only drivers of above-target (core) inflation

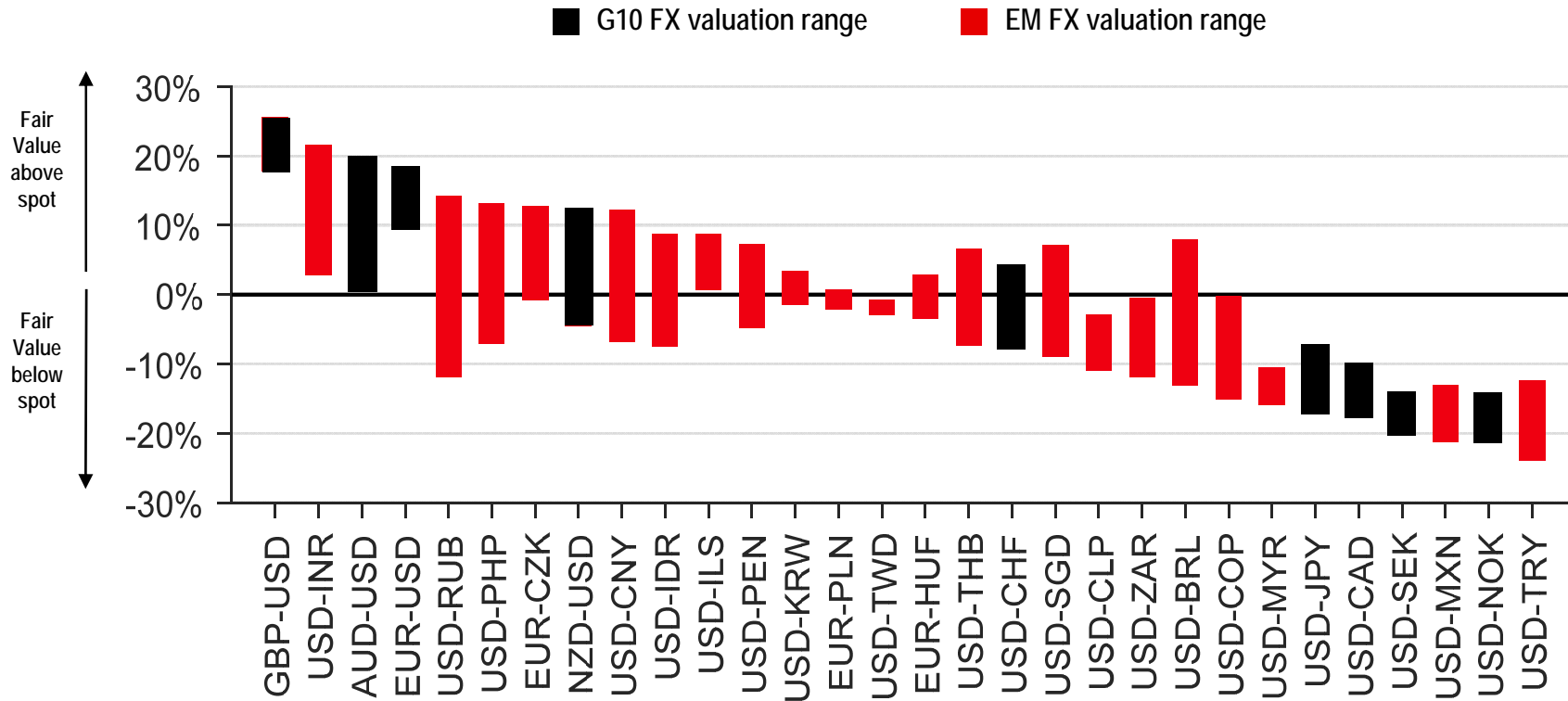


Source: ONS, HSBC calculations

13. Structural: limited external rebalancing



14. EM FX is not cheap



15.

Disclosure appendix

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