# Beginning to get interesting

Not a quiet Summer. The USD may have begun a surge. The DXY index seems to have broken out decisively to the upside above 96.0. The great post-Trump devaluation looks to be going into reverse. That devaluation was very welcome and brought to an end the late Obama-era economic stagnation. Trump may have been celebrating the strength of the USD when taunting the President of Turkey in his tweet announcing higher steel and aluminium tariffs, but not too long ago he was arguing for USD weakness.

So, is the USD rising due to USD strength or RoW currency weakness? Obviously everything is relative but the US is tightening monetary policy, as signalled by raising rates, far more aggressively than any other monetary regime. It may not be so fast as to upset the US economy itself but it is quite a thing relatively speaking.

**USDGBP**

The UK did raise rates 0.25% but the new guidance was so dovish that markets took the new information (rate rise + guidance) as more of an easing than a tightening.  There is also the small matter of Brexit and the seeming lack of progress in negotiating any sort of deal. A "No Deal" may be the right idea, but it will be enormously damaging to the economy in the short term to medium term. The 2$^{nd}$ estimate of UK RGDP for 2018Q2 showed an economy growing slowly and NGDP growing at just over 3%.

**USDEUR**

The ECB has signalled a tapering and end to its QE but again the guidance on the announcement was taken overall dovishly. There is the small matter of the Draghi succession with an apparent super-hawk the favorite to take over, but this is still some way off. Germany is suffering slower growth, especially driven by weakening of its manufacturing trade. Italy has huge political challenges and is threatening a very expansionary budget – very much against ECB/EU rules. And one bank in each of Italy, France and Spain have significant exposure to the very much troubled Turkish economy.

**USDCNY**

China is clearly enemy number one for Trump, after the Democrats, and has decided to let its currency weaken a bit relative to the USD. This may reflect a slightly weakening economy, but it may also be a modest warning to the US that China could devalue vs the USD any time it wants.

**USDJPY**

The USD has not been that weak against the JPY. And perhaps there is a sign that it really is US tightening that has driven the USD strength relative to RoW. The Japanese economy is doing OK, 2018Q2 RGDP growth was this week reported as much better than expected.

Other US or USD asset markets are giving mixed signals. Gold and copper are weak but oil is relatively strong. Equities are nearing previous record highs, but this may be more related now to tax cuts and consequent share buy-backs than expectations of economic growth. Still, sales growth is still expected to be robust during 2018.

Bond markets are beginning to show a bit more volatility but are largely unchanged over the last month. That said, over the last few days the late July surge in short term rate expectations has pulled back – reflecting the dampening effect of  that USD strength. The 10-year bond yield has also pulled back.

Despite the lack of signal from many markets, the liveliness of the USD makes for a much more interesting Summer than perhaps expected. We hope it doesn’t get too interesting but really do worry that the Fed will raise rates until it is obviously damping US economic growth – which will be a shame. The obsession with taking away the punch bowl just as the party gets going will condemn US workers to a lifetime of low real wage growth.