Time for the 'Anti-Dollars'?

Unio Global Macro Committee Outlook

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Time for the 'Anti-Dollars'?

For much of the past year, the dollar has been well bid compared to the other major currencies. There are two broad reasons for this.

First, the US economy continues to grow at an impressive rate – fuelled by an expansionary fiscal policy and a strong consumer. While there is a view that inflation is largely under control, it is nonetheless sticky and has occasionally led bond markets to row back the view that the Fed might cut rates aggressively.

Second, other large economic blocs have been weak. Europe, particularly Germany, has suffered an energy (policy) shock and general consumer pessimism. Japan has until recently grappled with a range of structural negatives however, it now appears to be overcoming these, while China remains in the grip of a slowly deflating property sector.

In that context, the dollar, and US assets, have found a steady bid, but that now is changing at the margins.

At this month's Global Macro Council, we examined the case for dollar weakness, or correspondingly a pickup in the currencies that one contributor (Harvinder Kalirai of Alpine Macro) referred to as the 'anti-dollar' (i.e, the euro).

"US exceptionalism is beginning to wane"

In the case of the euro, there is a cyclical case to be made that with several rate cuts from the ECB about to 'arrive', and signs that activity is beginning to pick up across the large European economies, the relative economic momentum between the US and the euro-zone will begin to narrow. This may be especially the case if the US labour market continues to weaken and the Federal Reserve becomes more concerned about the growth outlook.

Beyond Europe

Equally in the case of Japan there is a sense that not only is the economy improving and leaving behind some of the structural impediments it has suffered, but also the sense that the severe weakness in the yen is becoming disruptive and undesirable from the point of view of policy stability. As such, we hear commentators increasingly making the case that the yen is bottoming.

In emerging markets, the most exciting story remains India and the spillovers of its strong growth are becoming increasingly clear, notably on the commodity sector and potentially on commodity currencies like the Australian dollar.

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