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Daily

Intesa Sanpaolo  
Research Department

Macroeconomic and Fixed  
Income Research

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Macroeconomic data							
Time	Country	Data release	* Period	Previous	Consensus	Intesa Sanpaolo	
08:00	GE	Factory Orders MoM (sa)	* Apr	2.6	%	-0.4	-2.0 (\$)
<b>7 June</b>							
08:00	GE	Industrial Production MoM (sa)	** Apr	-1.3	%	0.6	1.2
Events							
Time	Country	* Event					
08:00	USA	Fed's Rosengren Gives Keynote at Helsinki Central Banking Conf					
10:00	AUS	ECB's Nowotny Presents Austrian Economic Outlook					
10:00	EUR	ECB's Constancio Speaks Frankfurt					
18:30	USA	* Fed Chair Yellen to Speak in Philadelphia					

(\*\*) very important; (\*) important; (\$) already occurred/released - Source: Intesa Sanpaolo Research Department

## Comments and indications

- USD (NEER) – The Employment Report disappointed and the dollar corrected sharply**, shedding the gains stacked up over the three previous weeks. **An interest rate hike at the next FOMC meeting next week (Wednesday, 15 June) now seems highly unlikely**, although it may come at the FOMC of 27 July. This is because Friday's data were not poor to the point of suggesting a reversal of the labour market. Seasonal factors weighed negatively, as also the strike at Verizon. Furthermore, slowing employment growth may be considered at least in part physiological, following the strong progress made over previous months. The wage trend proved resilient. Undoubtedly, the Fed will now have to scrutinise the data releases lines up for the next few weeks more carefully, and the Employment Report due out in at the beginning of July will be decisive to foresee whether rates may be increased next month, or if the wait will be longer (the following meeting will be in September). **An important event today will be Yellen's speech**. The Fed chair will probably not emphasise the negative Employment Report, and reasonably take a very cautious approach. Barring further disappointments, the dollar may manage to avoid hitting new lows below Friday's quotations, although a return to pre-Employment Report levels does not seem at hand. **In the meantime, we have revised up our forecast for the 'euro and the yen**.
- EUR – On the Employment Report, the euro rebounded immediately, rising from a low of EUR/USD 1.1137 to a high of 1.1374. The fact that the next Fed hike has been pushed back in time** prompts us to revise up our projections for the single currency, while leaving unchanged its expected trend: decline in the near term towards 1.10-1.08 on a 1m-3m horizon in correspondence with the next Fed hike and subsequent upside reversal towards 1.12-1.15 on a 6m-12m horizon. These levels may seem too low when considering that the exchange rate is EUR/USD 1.13 today, but they reflect three aspects: **(1)** the prospect of a string of uninterrupted hikes once the Fed resumes acting rates; **(2)** the still very cautious fed funds hike path priced in by the markets; **(3)** the prospect of rates in the euro area staying at zero at least throughout 2017, as opposed to rising rates in the US. However, risks to the forecast are skewed slightly upwards for the single currency.
- GBP – Sterling also rose on the US Employment Report, but less than the euro**. Against the dollar it climbed from GBP/USD 1.44 to 1.45 and opened today on the decline to 1.43. Against the euro it dropped from EUR/GBP 0.77 to 0.78, with a brief spell at 0.79 this morning. **The pound was weighed down by voting intention polls ahead of the EU referendum**, which is now only two weeks away (23 June). The latest interviews found that preferences for leaving the EU have increased. According to the latest survey published (Opinium), conducted between 31 May and 3 June, the lead of the "Remain" campaign decreased from 4% to 2%. Potential "Remain" voters decreased from 44% to 43%, whereas "Leave" supporters were up from 40% to 41%. The percentage of undecided remained unchanged in this case, and most importantly still high, at 16%. **In the next few days the polls will continue to be very important in guiding the exchange rate**, and any further progress of

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the pro-Brexit camp would continue to affect sterling negatively. Forthcoming releases – industrial output on Wednesday and foreign trade on Thursday – are expected weak again.

- **JPY – On the US Employment Report, the yen appreciated sharply, from USD/JPY 109 to 106. Therefore, we have revised up our forecasts for the yen to USD/JPY a 112-115 on a 1m-3m horizon, and to 120-118 on a 6m-12m horizon. The expected trend of the exchange rate remains unchanged, with a weakening of the yen in the next few months in correspondence of the next Fed hike and in view of a potential further slackening of BoJ monetary policy.**
- **AUD – The Reserve Bank of Australia board meeting will be held tomorrow morning, and is almost unanimously expected to leave rates unchanged at 1.75%. However, the central bank will maintain very cautious tones, probably leaving open the possibility of another interest rate cut if needed, mostly to prevent an appreciation of the Australian dollar (or at least to reduce it to a minimum), which in the present phase would risk compromising the improvement of the domestic growth and inflation picture. The AUD also appreciated on the US Employment Report.**

#### Exchange rates: projections

	06-06-2016	1m	3m	6m	12m	24m
EUR/USD	1.1342	1.10	1.08	1.12	1.15	1.20
USD/JPY	107.07	112	115	120	118	116
GBP/USD	1.4372	1.38	1.42	1.48	1.55	1.60
EUR/CHF	1.1081	1.09	1.10	1.11	1.12	1.15
EUR/SEK	9.2582	9.25	9.40	9.20	9.10	8.90
EUR/NOK	9.2865	9.30	9.20	9.10	8.90	8.70
EUR/DKK	7.4397	7.45	7.45	7.45	7.46	7.46
USD/CAD	1.2965	1.30	1.27	1.25	1.23	1.20
AUD/USD	0.7334	0.73	0.68	0.72	0.75	0.80
NZD/USD	0.6918	0.62	0.60	0.65	0.68	0.72
EUR/JPY	121.46	123	124	134	136	139
EUR/GBP	0.7891	0.79	0.76	0.76	0.74	0.75
EUR/CAD	1.4705	1.43	1.37	1.40	1.41	1.43
EUR/AUD	1.5457	1.51	1.59	1.56	1.53	1.49
EUR/NZD	1.6385	1.77	1.80	1.72	1.69	1.66

#### Exchange rate projections: % changes

	1m	3m	6m	12m	24m
EUR/USD	-3.0%	-4.8%	-1.3%	1.4%	5.4%
USD/JPY	4.6%	7.4%	12.1%	10.2%	8.3%
GBP/USD	-3.7%	-1.2%	3.0%	7.8%	11.3%
EUR/CHF	-1.6%	-0.7%	0.2%	1.1%	3.8%
EUR/SEK	-0.1%	1.5%	-0.6%	-1.7%	-3.9%
EUR/NOK	0.1%	-0.9%	-2.0%	-4.2%	-6.3%
EUR/DKK	0.1%	0.1%	0.1%	0.3%	0.3%
USD/CAD	0.3%	-2.0%	-3.6%	-5.1%	-7.4%
AUD/USD	-0.5%	-7.3%	-1.8%	2.3%	9.1%
NZD/USD	-10.4%	-13.3%	-6.0%	-1.7%	4.1%
EUR/JPY	1.4%	2.3%	10.7%	11.7%	14.1%
EUR/GBP	0.7%	-3.6%	-4.1%	-6.0%	-5.4%
EUR/CAD	-2.8%	-6.7%	-4.8%	-3.8%	-2.5%
EUR/AUD	-2.5%	2.8%	0.6%	-0.8%	-3.4%
EUR/NZD	8.3%	9.9%	5.2%	3.2%	1.3%

#### Forward exchange rates

	06-06-2016	1m	3m	6m	12m	24m
EUR/USD	1.1342	1.1354	1.1377	1.1416	1.1505	1.1703
USD/JPY	107.07	106.94	106.75	106.35	105.41	103.13
GBP/USD	1.4372	1.4376	1.4381	1.4393	1.4429	1.4511
EUR/CHF	1.1081	1.1077	1.1067	1.1049	1.1016	1.0954
EUR/SEK	9.2582	9.2567	9.2528	9.2470	9.2428	9.2590
EUR/NOK	9.2865	9.2972	9.3181	9.3479	9.4048	9.5259
EUR/DKK	7.4397	7.4393	7.4369	7.4320	7.4241	7.4163
USD/CAD	1.2965	1.2965	1.2963	1.2960	1.2946	1.2904
AUD/USD	0.7334	0.7326	0.7310	0.7288	0.7252	0.7188
NZD/USD	0.6918	0.6907	0.6886	0.6859	0.6808	0.6710
EUR/JPY	121.46	121.45	121.47	121.43	121.29	120.85
EUR/GBP	0.7891	0.7897	0.7910	0.7930	0.7971	0.8061
EUR/CAD	1.4705	1.4721	1.4749	1.4794	1.4894	1.5101
EUR/AUD	1.5457	1.5491	1.5556	1.5653	1.5855	1.6252
EUR/NZD	1.6385	1.6428	1.6510	1.6632	1.6881	1.7366

#### Exchange rates: forward points

	1m	3m	6m	12m	24m
EUR/USD	12.23	35.28	73.60	162.55	361.43
USD/JPY	-12.54	-32.15	-71.55	-166.20	-394.05
GBP/USD	3.66	9.30	21.25	57.30	138.70
EUR/CHF	-4.22	-14.16	-32.08	-64.96	-126.84
EUR/SEK	-14.70	-53.91	-112.03	-154.48	8.00
EUR/NOK	106.62	315.96	613.62	1183.33	2393.82
EUR/DKK	-3.65	-27.83	-77.50	-156.42	-234.00
USD/CAD	-0.03	-1.61	-4.88	-19.07	-61.29
AUD/USD	-8.27	-24.24	-45.75	-81.90	-145.81
NZD/USD	-10.69	-31.76	-59.50	-109.75	-207.65
EUR/JPY	-1.49	1.18	-2.93	-16.97	-60.65
EUR/GBP	6.25	19.32	38.79	80.42	170.10
EUR/CAD	15.87	44.18	89.35	189.00	395.80
EUR/AUD	33.94	98.81	195.88	398.00	795.30
EUR/NZD	42.80	125.26	246.71	495.98	980.90

Source: Thomson Reuters and Intesa Sanpaolo elaborations

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## Appendix

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