

Exchange-rate shifts have helped the global economy

Exchange-rate shifts have been helpful to the global economy

STICKLERS for value have plenty of reasons to frown at financial markets. Much feels out of whack, from squashed bond yields to pricey stockmarkets. Yet currency markets, at least, seem to have shifted in line with fundamentals this year. Take the euro, for instance. Since the start of 2017 it has risen by almost 15% against the dollar, to \$1.19 (see chart). That has taken it much closer to fair value by benchmarks such as purchasing-power parity (PPP), the exchange rate at which a basket of goods is worth the same in different countries. The OECD puts the euro's PPP at \$1.33. That is quite a stretch from \$1.04 in January. "The elastic had to snap back," says Kit Juckes of Société Générale, a French bank.

Of course, the euro's revival is a result of more than its being cheap. The anxiety that elections in Europe might bring to power anti-euro populists, such as Marine Le Pen in France, has dissipated. The euro-zone economy has further strengthened, raising the prospect that monetary policy will soon be less accommodating. Even so, the European Central Bank (ECB) seems in no hurry to fulfil these hopes, in part because of the euro's recent surge. The bank's rate-setting council met on September 7th, as *The Economist* was going to press, and was expected to keep interest rates unchanged and to put off a decision on how to "taper" its bond purchases.

The flipside of euro strength is a weaker dollar. It surged in the weeks after the elections in November on a belief that big tax cuts were likely and that a fiscal stimulus of this kind would oblige the Federal Reserve to raise interest rates more quickly than otherwise, pulling capital to America and lifting the dollar. Hopes of tax reform have been dashed. Indeed America's economy has underperformed. The IMF, for instance, revised down its forecasts for GDP growth in July. A series of surprisingly weak inflation figures has made the Fed more cautious about raising interest rates.

All this has hurt the dollar. Since the start of March it has fallen by 6.5% against a broad basket of currencies weighted by their importance to America's trade. This is good news for the world economy. A weakening dollar has also given a recovery in emerging-market economies room to breathe. A weak dollar allows for cheaper borrowing in dollars in global markets. Central banks have been able to cut interest rates without worrying that this will weaken their own currencies and stoke inflation. The global appetite for risk-taking has also helped. When investors are cautious, they cling to "safe haven" currencies, such as the dollar, yen or Swiss franc. But when the volatility index (the Vix, or fear index) falls, the riskier ("risk-on") emerging-market currencies tend to do well, according to Kevin Daly of Goldman Sachs, a bank (see chart).

Can the euro's winning streak against the dollar continue? Fundamentals, such as valuations and current-account balances (the euro-zone's big surplus; America's big deficit), suggest it should. But such factors are often a weak pull on currencies. Other influences will soon tug in the opposite direction, notes George Papamarkakis, of North Asset Management, a hedge fund. The ECB's anxiety about euro strength is one. Another is the Fed's plan to reverse its programme of quantitative easing, or QE, by letting its holdings of bonds tail off. Because one effect of QE was to weaken the dollar, its reversal ought logically to strengthen it. And the euro has already travelled quite far on improved sentiment. Last year it slid because of a fear of Ms Le Pen, says Mr Papamarkakis. "Now there is no fear of anything."

Aussi paru dans 9 septembre 2017 -

Marine Le Pen

Marine Le Pen

Née Marion Anne Perrine Le Pen, Marine Le Pen est la benjamine des trois filles du président du Front national depuis 1972, Jean-Marie Le Pen. Inscrite au Barreau de Paris



Avocate Membre du comité central du Front national (2000) Membre du bureau exécutif et du bureau politique du Front national (2000) Présidente de l'association Génération Le Pen (2000-NC) Ancienne



Société Générale

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Société Générale

Société Générale is one of the largest French banking groups. Net interest income breaks down by activity as follows: - retail banking in France (33.2%; Société Générale and Crédit du Nord



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