

TRENDS AND FORECASTS MAIN INTERNATIONAL CURRENCIES

A steady appreciation of the **euro against the dollar** has been observed in the first months of 2017. Since the beginning of the year, the European currency increased by 12% against the dollar, bringing the exchange rate to its maximum over the last two years (1.17 USD per euro).

According to the analysts, the US currency depreciation follows the current US political weakness, compounded by a slowdown in the Fed's monetary policy normalization, which has decided to maintain interest rates between 1 and 1.25%, waiting for a gradual rise in the future. The sprint of the European currency also reflects the ECB's optimism on the Eurozone economic performance (despite inflation still below 2%) and the hypothesis of a prolongation of its monetary support, at least until the end of the year. The achievement of the parity between the two currencies predicted by some observers in the past few weeks is thus far removed. The average of expectations in three and twelve months is set between 1.15 and 1.16 USD per euro.

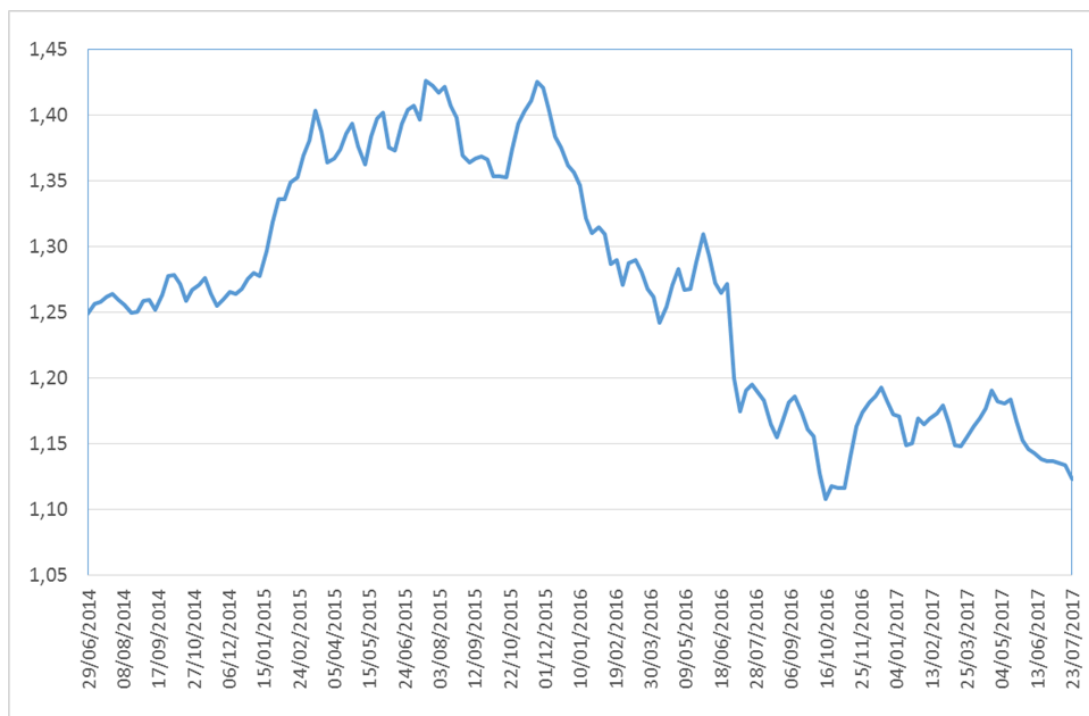
USD/EUR exchange rate January 2014 – July 2017



Brexit negotiations continue to be unclear, with unavoidable clutches on the **British pound**, which has been depreciating progressively **with respect to the euro** in the previous weeks. Despite the rising trend observed in early 2017, the sterling has settled on the levels achieved in November 2016. The devaluation of the British currency contributes to the domestic demand cooling, due to higher consumer spending, with service spending only to support the slight growth (+0.3%) recorded in the second quarter of the year.

Prospects for the coming months find analysts converging towards a further depreciation of the pound, which could bring the EUR/GBP exchange rate to parity (three-month forecasts predict 1.1 euros per pound).

EUR/GBP exchange rate January 2014 – July 2017



The exchange rate between euro and **yen** has reached the maximum since February 2016, with a sharp acceleration in the last few weeks. The Bank of Japan has confirmed its ultra-expansive monetary strategy, taking into account the possibility of an interest rates cut, which could lead to a further depreciation of the Japanese currency.

The rise of the **yuan** seems to have already ended. From 2015 until today, the Chinese currency has fallen by 9% against the dollar and by 5% against the euro. Chinese People's Bank interventions in order to contain the renminbi depreciation by making its conversion to other currencies more difficult, turned out to be useless. The impression is that Beijing has opted for the stability of its currency by removing the hypothesis of full convertibility in the medium to long term, which would allow the yuan to enter fully into the basket of reserve currencies.

YEN/EUR exchange rate 2014-2017



YUAN/EUR exchange rate 2014-2017



Source: UNIC – Italian Tanners' Association elaboration on Bank of Italy, Oanda, Fx Week data