

# currency focus

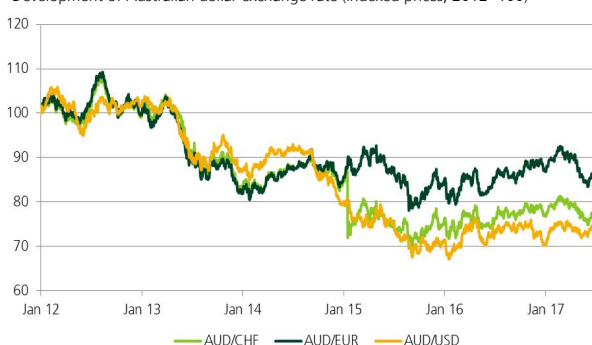
## Commodity currencies show mixed first-half performance

*The currencies of industrialized countries with strong commodity sectors are benefiting from the global economic recovery. However, the diminishing price impetus on the commodity markets means that one of last year's positive currency drivers has weakened significantly. Canada is one step ahead on the path towards a monetary policy turnaround.*

### Australian dollar (AUD): China slows Aussie's progress

At 1.7% year-on-year, first quarter GDP growth was lower than expected, but in line with a long series of previous figures. Australia has not slipped into recession since 1991. Although the AUD benefited from rising iron ore and coal prices in 2016, the rally – fuelled in part by speculation – was followed by a correction. China – a key trading partner – also reported mixed economic data. Despite this, the Reserve Bank of Australia (RBA) shows no sign of contemplating any further easing of monetary policy. The leading indicators point to a gradual recovery. The labour market data too confirm a positive trend, suggesting that the monetary authorities are unlikely to cut interest rates. This is supporting the AUD. However, the RBA is not in any hurry to raise its key policy rate. At 2.1%, inflation is within the RBA's target range, which gives it sufficient room for manoeuvre.

Development of Australian dollar exchange rate (indexed prices, 2012=100)

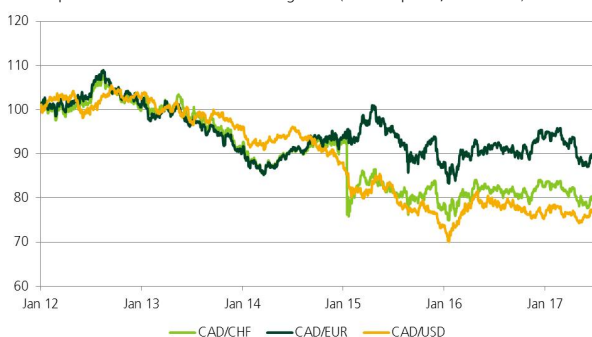


Source: Bloomberg

### Canadian dollar (CAD): rate hike boosts CAD

At the beginning of the year, there were a range of factors weighing on the loonie dollar, including President Trump's decision to impose tariffs on construction timber imports from Canada. However, the more crucial question in this context is the future of Canada's close trade relations as a whole (NAFTA). In addition, concerns over the domestic real estate market were further fuelled when Moody's downgraded the rating of Canada's top six banks. These issues have receded into the background recently. After a phase of weak growth, the Canadian economy is on track for a recovery, with first-quarter GDP growth surprising on the upside, for example. At its July meeting, the Bank of Canada raised its key interest rate for the first time since 2010, making it the second central bank of an industrialized country to tighten policy. Backed by monetary policy, Canada's currency should also benefit from a reduction in persisting extensive short positions in the CAD.

Development of Canadian dollar exchange rate (indexed prices, 2012=100)



Source: Bloomberg

### Norwegian krone (NOK): outlook for the NOK still intact

Norway is receiving a boost from the positive economic signals coming from Europe. As Eurozone growth becomes increasingly broad-based, Norway is benefiting thanks to its close economic ties with the bloc. The country's current account surplus is an additional stabilizing factor. However, developments in the energy market remain the NOK's principal driver. The price of oil has nearly doubled since bottoming out in January 2016. However, the upward momentum has been weak recently as the reduction in global oil inventories has slowed. This, coupled with the current low level of inflation, has dampened the progress of the NOK. Provided the energy market remains stable, its prospects will brighten further over the coming quarters.

Development of Norwegian krone exchange rate (indexed prices, 2012=100)

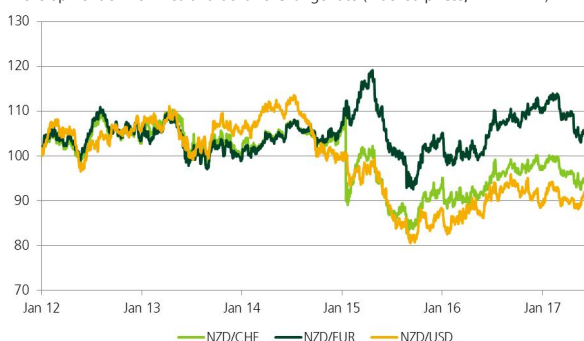


Source: Bloomberg

### New Zealand dollar (NZD): volatile «Kiwi»

New Zealand's currency has experienced some substantial exchange rate swings over the last three years. It has recovered significantly since its 2015 low, but the trend has stalled in 2017. Since cutting interest rates at the end of 2016, New Zealand's monetary authorities have held their fire. Having persisted at levels below 1% in 2015 and 2016, inflation is now within the target range of 1-3%. If there is a further improvement, the question will be whether the present highly supportive monetary policy still needs to be maintained to the current extent. For this year, the Bank of New Zealand is expecting the domestic economic data to remain robust. Both GDP growth and the leading indicators confirm this picture. However, the high value of the Kiwi dollar militates against any strong upside potential.

Development of New Zealand dollar exchange rate (indexed prices, 2012=100)



Source: Bloomberg

### Commodity markets: upward price impetus subsides

In 2016, the international commodity markets trended firmer across a broad base for the first time in six years. In recent months, the trend has been mostly sideways or downward. The broad-based Bloomberg commodity index is currently down 5% on the beginning of the year. The price trend in the energy sector is a major factor. The trend of oil prices is at odds with Opec's efforts to achieve some sort of market equilibrium. The high levels of stocks worldwide still stand in the way of a substantially higher oil price. Over the coming months, we shall therefore be focusing on the inventory trend in particular.

Bloomberg Commodity Index (2012=100)



Source: Bloomberg

	Key interest rates	Last change	Inflation (YoY)	Yield difference*
Australia	1.50%	-0.25% (Aug. 16)	2.10%	2.70%
Canada	0.75%	+0.25% (July 17)	1.30%	1.90%
Norway	0.50%	-0.25% (March 16)	1.90%	1.65%
New Zealand	1.75%	-0.25% (Nov. 16)	2.20%	2.95%
Eurozone	0.00%	-0.05% (March 15)	1.30%	0.55% (Germany)
USA	1.00% – 1.25%	+0.25% (June 17)	1.90%	2.30%
Switzerland	-0.75%	-0.50% (Jan. 15)	0.20%	--

Source: Bloomberg

\*Yield differential to CHF  
(10-year government bonds)

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