The Rearview Mirror: August 2017

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> *Summertime, and the livin' is easy*
> *Fish are jumpin' and the cotton is high*
> *Oh, your daddy's rich and your ma is good-lookin'*
> *So hush, little baby, don't you cry*

The famous aria composed in 1934 by George Gershwin well describes a status quo where there is no reason to cry, there is no reason to complain. Maybe in autumn we could wake up in a different environment and Central Banks are going to radically change their attitude.

But for the time being the market is enjoying the weakness of loudly announcements. Indeed, the FX players are reacting in a more sanguine way with respect to the bonds and equity guys so far. In fact, at Sintra symposium, ECB President **Mario**

Draghi's statement was interpreted as hawkish with regard to the inflation outlook; only the press conference of the Governing Council of July clarified and calmed down the market. Equity continued to benefit from the extreme level of liquidity and the government yields are coming back to the lowest levels. But the Euro Dollar is telling us a different story, surging well above 1.18; it is not the baby that is crying yet, but it is a signal that in Autumn maybe the narrative from the **ECB** can be different. Some investors remained astonished from last appreciation of the Euro against its peers, but specifically against the greenback it seems a story much more related to the weakness of the Trump trade rather than a divergence of the two monetary policies.

In fact, Super Mario again tried to convince the market that there is a lot of uncertainty and that ECB must be data dependent until the Autumn comes. To sum up, the July **ECB** meeting was a perfect combination of confidence and a mix of prudence and patience.

On the other hand, in US, the final message seems to be the same. **The Federal Reserve** declared that it would start reducing its bond holdings "relatively soon" by closely monitoring the economic growth. There is a supportive stance from central banks with the aim of fighting the bubbles they have created. Anyway, we need to wait for the real announcements and look exactly into the details of their plan to shrink their balance sheet. Even if we should expect a steepening of the yield curve, especially in US, perhaps the final effect could arrive in a smoother tone. For instance, the **FED** can decide to substitute the long-term paper by buying consumer and commercial loans, deciding to help another segment of the economy that appears overheated.

In the end, last movement of the EUR/USD can be described as correction to price a fair value between the two currencies that was not considering the fundamentals for a long time. On

top of it, political risk in Europe is dissipating and a stronger Euro is reflecting the positive expectations about the European economy.
Hence, let us enjoy this summertime.

One of these mornings you're gonna rise up singing
And you'll spread your wings and you'll take to the sky
But till that morning, there ain't nothin' can harm you
With daddy and mammy standin' by

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