

US Dollar Outlook following Trump's Intervention

President Trump indicated resistance late last week to, among other things, recent USD strength.



Donald J. Trump 🤣 @realDonaldTrump · Jul 20

....The United States should not be penalized because we are doing so well. Tightening now hurts all that we have done. The U.S. should be allowed to recapture what was lost due to illegal currency manipulation and BAD Trade Deals. Debt coming due & we are raising rates - Really?

🗘 14.4K 1⊂↓ 19.8K 🖤 85K 🛆



Donald J. Trump 🤣 @realDonaldTrump · Jul 20

China, the European Union and others have been manipulating their currencies and interest rates lower, while the U.S. is raising rates while the dollars gets stronger and stronger with each passing day - taking away our big competitive edge. As usual, not a level playing field...

♀ 9.8K 1, 16.9K ♥ 68.6K 1

In response the USD has backed off recent highs against other major currencies, falling in the region of 1 to 1.5% depending on the currency pair. While Trump's intervention was hardly a shock, it affects sentiment in the short term by reminding the market of the administration's preference for a soft USD and raises the prospect of similar episodes in the future, should the USD continue to strengthen. In addition, from a technical perspective, the USD has again backed off the upper side of its recent range.

Beyond the short term however, we doubt such interventions will derail USD strength and anticipate a more muted market response to further episodes. The USD has too much going for it, most obviously a substantial yield advantage against other major currencies that is highly likely to widen in the months ahead. In this context, it seems doubtful that FOMC policy will be influenced by Trump's comments except perhaps at the margin, by encouraging higher interest rates by way of emphasising Fed independence. We view the yield advantage as a downside cushion for the USD which will continue to offer strong support.

As Trump pointed out in an interview on CNBC, the Chinese Renminbi is "dropping like a rock". The PBOC is loosening monetary policy while China is facing several major challenges from Trump's threat to place tariffs on all of China's \$505 billion of exports to the United States to rising defaults in credit markets. While the PBOC will want to keep RMB depreciation orderly they surely expect it to continue to weaken. That this happens will be important for USD sentiment globally.

We exited USD longs in response to headlines from Trump's CNBC interview but will be looking to re-enter either on a pullback towards the 'cushion' or on a break to new highs.

Conor O'Mara, Chief Investment Officer, July 23, 2018

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS The information contained within this document is for information purposes only and is subject to change without notice. It is not an invitation to buy or sell a particular financial product or service and it should not be regarded as such. Three Rock Capital Management Limited (TRCM) does not represent that the information contained here-in is complete, fair or accurate. The opinions and views expressed are those of the creator and may not reflect those of TRCM. Futures are risky and leveraged financial instruments and should only be considered by investors who fully understand the risks and potential losses involved. Past performance figures contained in this document are not necessarily indicative of future results. This document should not be supplied, presented or distributed to retail investors. It should not be redistributed, supplied or presented in jurisdictions where the investments described may be restricted or prohibited by law and TRCM cannot accept any responsibility for such actions.

Three Rock Capital Management is regulated by the Central Bank of Ireland. The firm is registered with the CFTC as a CTA and a CPO and is a member of the NFA.