IN BRIEF

What happened

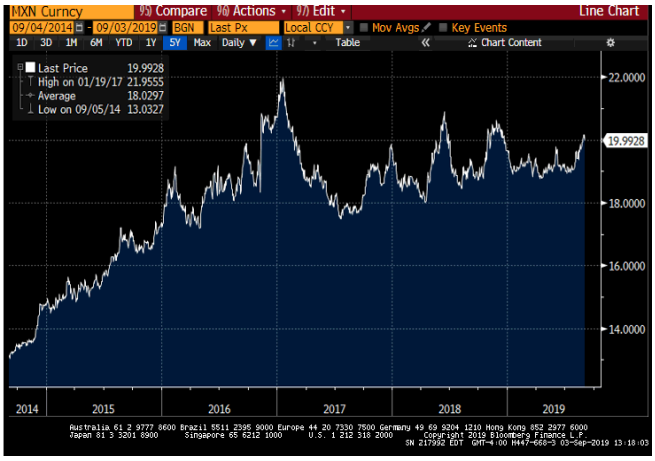
- Wild fluctuation and uncertainty in markets crowned the U.S. Dollar as a safe-haven
- August came with havoc to equity and bond markets; DJIA had its first loss in 3 months
- Other central banks exercised easing policies only re-strengthening the buck by 0.5% overall
- Political battles brewing in the U.K. and Italy sank Euro and Pound to 2017-lows
- Mexican Peso and Brazilian Real were worst performers as the Amazon and economy burn
- China and the U.S. sought to take a friendlier tone in the midst of tariff escalation at the G-7 meeting while reassuring world leaders

Tempus' view

- Fed could hesitate in lowering interest rates in September, buck likely will swing, but not gain
- Lack of detail or advancement in trade talks will continue weighing on global markets
- Elections or a second Brexit referendum in the U.K. could materialize ahead of October
- Canadian Dollar and Mexican Peso will mount a comeback if USMCA is ratified, oil climbs, trade situation improves
- Hard to make predictions in a world with daily changes in mood and intentions. As politics and the economy intertwine, normal FX dynamics are adjusting as well as digesting

IN FOCUS

Mexican Peso (MXN) hits worst level of the year, fell by over 4.0% in August



It's not the Alps, but MXN keeps climbing to reach new record-lows since 2014

- If you were wondering, the Peso has been on a 5-year losing run representing a 50.0% loss
- Banxico, the central bank, decided to cut its interest rate following the Fed's initiative
- Poor economic momentum and a trade war are causing pain in Latin American nations with Mexico's Industrial Production contracting all year long
- Since the USMCA Trade Pact has not been ratified, none of its effects have materialized
- Peso appreciation will come if the friction in trade talks fades and legislatures act on it

THE VIEW – U.S. Dollar resilient, but turbulence is coming

Turmoil in August further helped the dollar establish its value as global markets worry

And the safe-haven momentum continues. Indeed, the buck did not do the one thing we believed it could do: fall. Why? The situation globally is presenting itself to be more dire than anticipated and as the Fed readies to stimulate the economy further, other central banks are feeling the need to do the same. Cutting rates and coming up with a stimulus packages may sound like we turned the clock back to 2010, but the reality is simple: Trade concerns along with the fact that governments have not spent money out of austerity are causing a global slowdown. The United States economy remains steadily growing, but for how long?

Things are certainly looking more negative now than at any other point in the summer. Equities across the board are signaling a lack of faith in companies' performance and these in turn say that they cannot help the current uneasy environment in which the status quo of trading is being challenged.

Inflation has failed to rise to satisfactory levels, Industrial Production in most regions is already in negative contractionary territory, and Gross Domestic Products are showing slower pace of growth. In a situation like this where only the U.S. seems to be consistent in its economic indicators, it is natural for the greenback to look as they only asset worth holding onto.

Our August prediction of a weakening dollar failed to come to fruition, but we still believe that worsening times could come not based on trade turmoil, but rather on the efforts across the world to avoid a recession. Although productivity in Europe and the U.K. has been suffering, recent July and August figures suggest that these regions are looking to recover.

In Britain, things are a bit blurrier with Brexit, but services and manufacturing have improved since the first quarter of the year and slowly, but surely, Purchasing Managers Indices are staying on expansionary territory. Simultaneously, the Euro-zone is also experiencing a bit less anxiety and developments in the past few days could help in establishing a much rosier picture as we enter the last phase of the year.

All throughout the last year and a half, market watchers saw a very problematic government in Italy after a surprise rise to power by outside political parties that had never been in Parliament. The European Union jumped into explaining how seriously risky it would be to do reforms without fixing the budgetary deficit first and addressing bank instability. However, the Italian politicians that took over sought more independence from EU rules and regulatory standards. Naturally, Italy became a volatile member nation suddenly talking about leaving the trade pact and other obligations.

Popular opinion and the agenda have changed since March of last year when a new government was elected. Surveys had shown prior to the vote that Italians had a deep distrust of the established parties led by former Prime Ministers such as Matteo Renzi and the controversial Silvio Berlusconi.

While not everything has changed, many in the country started realizing that talks of avoiding the Euro and re-introducing the Lira as legal tender were not something they wanted to sing up for, especially looking at Greece and the United Kingdom as examples of the EU properly dealing with dramatic changes. A new pro-EU cabinet is being put together by Prime Minister Giuseppe Conte after disagreements with Matteo Salvini that broke the left/right alliance.

In seeing Greece's attempts to leave and fight the EU, the populations of the periphery countries that suffered the most after the 2008 financial crisis were somewhat inspired to give opportunity to newcomers in the politics front. Nevertheless, new ideas are hard to implement as monetary policy is controlled centrally by the European Central Bank and austerity was hard to overcome since revenues were in the red.

Seeing now how the EU's plan to save Greece worked, it pushed others to think of reconciliation and less about friction. The natural gridlock of European nations' legislatures make cohesive plans difficult, but there is a real need for compromise as infrastructure and healthcare need a boost.

We feel that there is potential for Euro reaching higher levels, perhaps return to its pre-summer ranges as political solutions translate into real economic growth. Although the buck acts as a safe-haven, so can the Euro and if things in Asia and the U.K. look less than ideal with Brexit and trade conflicts, maybe a flight towards EUR-denominated assets could occur. September will be a month testing the greenback's strength as markets interpret the Fed's interest rate cuts and effects.

WASHINGTON, DC 800.834.2497 | LOS ANGELES 855.606.8346 | NEW YORK 855.778.2022 | www.TempusFX..com info@tempusfx.com