IN BRIEF

What happened

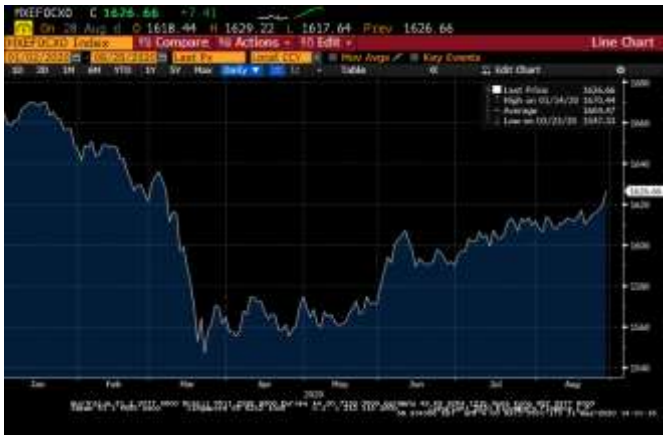
- August represented a fifth straight month of declines for the U.S. Dollar, falling 1.8%
- All across the board, buck weakness has reached the lowest point in over two years
- A more resolute Fed will prioritize full employment, let inflation run freer, loosen policy
- Euro gains continued as it improved by another 1.5% despite the return of COVID-19 cases in Italy, France, and Spain
- Appetite for risk and optimism over a stronger global recovery benefited petro-currencies NOK, CAD, and MXN by 2.5% and above

Tempus' view

- U.S. Dollar fortunes will continue to be tied to risk and less aversion could keep it weak
- Volatility is due to increase as we enter a crucial period of economic data and elections
- British Pound could be knocked off its high pedestal as Brexit worries grow nearing deadline for an actual plan for trade
- Oil and commodity prices on the rise could sustain momentum for CAD and MXN
- The Euro and other currencies may experience plenty of swings as we witness more central bank meetings and end of Q3

IN FOCUS

MSCI Emerging Market Currency Index. is erasing its losses for 2020



The buck's March peak is almost entirely gone with world markets flourishing

- The MSCI EM Curr. Index is about half a percent away from reversing its decline since March when the pandemic hit hard
- COVID-19 is by no means gone, but worldwide activity is suggesting less concern than before
- Recent news of possible vaccine developments, particularly in Asia, Russia, and Europe uplifted global sentiment in August
- A Fed that sees no reason to hike interest rates or mess with an accommodative environment could mean further gains across currencies

THE VIEW – Could we go six straight months of dollar weakening?

Investors and Traders seek risk-appetite trying to put COVID-19 lag behind

We have all certainly become somewhat accustomed to managing a strange life in the midst of a global pandemic. There is no normal, but schools are back in session, travel has increased, and activity in general is having a revival. Challenges from battling the coronavirus have met some resistance lately as supply chains try to function effectively and with more urgency than ever, plus we have seen rescue packages and measures put forth to alleviate the economic pain all of this uncertainty has caused. Much of the burden for the virus has been laid on China and its wet markets, but the search for a culprit and race to recover hurt global medical cooperation.

Indeed, much of the responsibility in the fight against COVID-19 has been bestowed upon the hands of national authorities rather than a global health organization, thus the disparity in efforts and success in handling the disease and its toll. Experts seem to have emerged in their respective countries,

but there has been very little in terms of a global force to put together best practices other than the sanitation of the hands and wearing of masks. We shall see if in September, as fears of a more devastating second wave build up, nations do more to assist one another and build a consensus on how to move forward to foment travel and free trade without limits based on health.

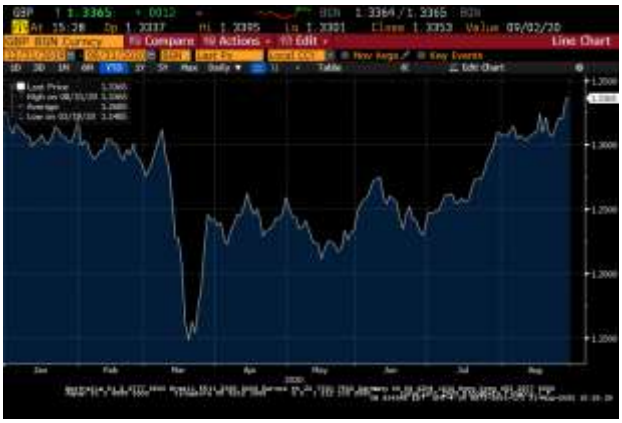
Monetarily, they all seem to agree that an easy financial environment shall be fed in order for any progress out of the virus rut to continue. We will likely hear from monetary authorities when they meet this month that indeed interest rates cannot be lifted until serious improvement happens for a prolonged period of time.

In the latest discussion from Jerome Powell, head of the Federal Reserve, the role of the central bank may be tweaked to assess if there is a healthy level of employment and economic growth, rather than control the level of inflation to keep it at 2.0% or below.

The Fed's new mandate is the result of the Federal Open Market Committee coming to the conclusion that several, if not all, of the interest rate hikes voted on post-2015 were unnecessary and may have prevented greater growth in labor and wages. Simply put, interest rates are at 0.25% and it will be a long while until the Fed moves up the needle since they now want to let the economy run hotter and withstanding higher levels of inflation before controlling it via higher borrowing costs.

Ultimately, this new way of thinking may lead to a long-term effect that plays against the buck's fortunes and even as a source of yield. The future without interest hikes will lead participants to seek riskier assets with more potential for growth than USD positions. A sixth consecutive month of downturn could exacerbate loss of safe-haven role.

Meanwhile, the British Pound crushed our expectations for appreciation in August rising as high as 2.35%. Much of this rise in value is due to highly optimistic outlooks for growth in Britain, with experts in Treasury and the government putting their faith in a V-shaped recovery. Nevertheless, we feel that Sterling is being overbought and that not enough attention has been placed on the frustrations emanating from the European Union, which is by now convinced U.K. demands and attitude have hurt their chances of any fruitful trade agreement.



(*GBP happens to be trading around its strongest levels against the dollar since December 2019 per Bloomberg)*

We believe pressures are adding up on the Pound and that this resurgence will be met with serious downward swings as the Bank of England figures how to stimulate the economy further and considers what a world without EU integration looks like. After so many years of back-and-forth that has led to no resolution, we feel the EU will not attempt to regain its partner and only allow for WTO and other trade rules to apply along with restrictions.

On the other hand, the numbers from Purchasing Managers Indices and Retail Sales throughout the European continent have established a high level of confidence among business owners and even consumers. The Euro has gained ground as means of payment for Chinese and Russian imports/exports, only adding to the idea that the shared currency may become more utilized over the buck as years roll. We see no need to hit the brakes.