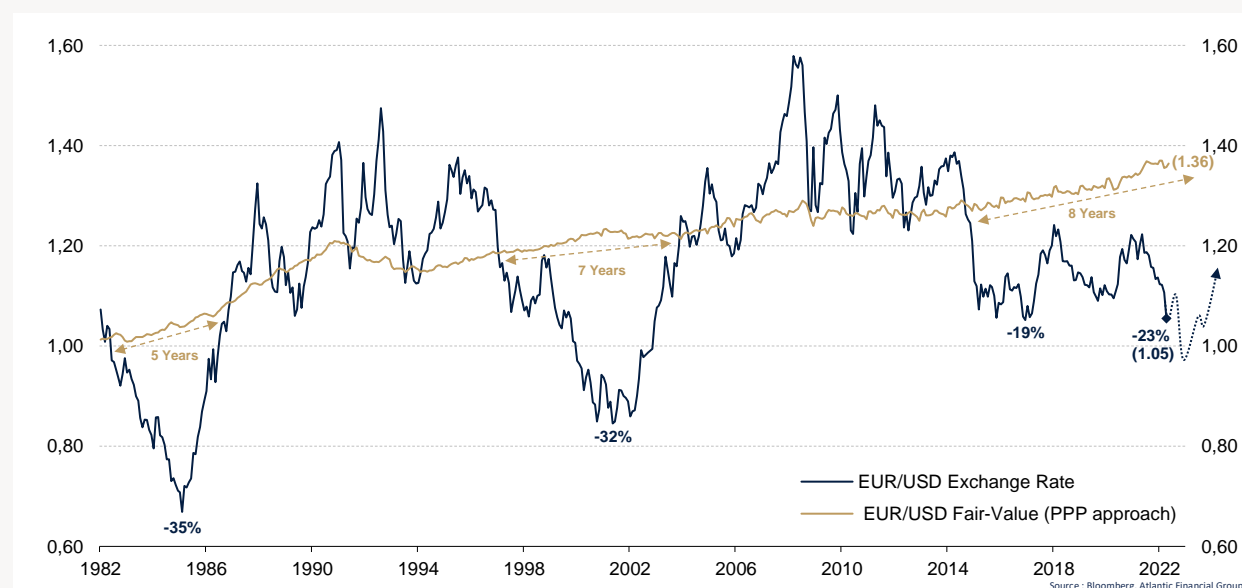




"GREEN IS IN, SO IS THE GREENBACK"

- ◆ The dollar is testing new highs against its major counterparts
- ◆ This upward trend will only be reversed when the Fed eases its stance
- ◆ Euro and yen benefit from ECB and BoJ 'wait-and-see' attitude to depreciate
- ◆ China is forced to weaken its Yuan to avoid losing too much competitiveness

CHART OF THE WEEK: "The dollar's overvaluation has never lasted this long"



FOREX MARKET ANALYSIS

Spring 2022 continues to promote green in all its forms... in the fashion world, but also in the currency market. **The dollar, referred to by traders as the greenback, has just reached its highest level in almost 20 years.** This is the case against most of the currencies of the United States' trading partners (see Fig. 2). Against the euro, the record has not yet been set, but it is only a matter of weeks. The factors influencing the exchange rate are numerous: economic growth, inflation, bond yields, public and external deficits, debt levels, etc. However, in 2022, **the greenback's appreciation is the almost exclusive consequence of**



one factor: the Fed's tightening of monetary policy. By promptly raising the cost of money, the US central bank is giving the dollar a major advantage. Since investors are better paid in dollars than in euros, Swiss francs, yens or yuans, for example, they prefer US cash deposits and bonds. This phenomenon is called "carry trading". Ultimately, the demand for dollars increases and the exchange rate appreciates.

When we developed our 2022 scenario last November, our econometric models predicted that the dollar would appreciate to 1.07 against the euro in 2022, before a major structural fall in the course of 2023 (see Fig. 3). The second part of this scenario was based on the assumption that the Fed would abandon tapering. However, **the US central bank has chosen to adopt a very aggressive monetary policy and a much more hawkish tone than expected.** Last week, it increased its key rates by 50 basis points, the first time this has happened since May 2000. This monetary policy of raising rates will continue in the coming months, although we believe that this strategy is a mistake (see WIF of 4 April 2022). **Thus, everything leads us to conclude that the appreciation of the dollar will go beyond our estimates and that Uncle Sam's currency will test parity with the euro by the end of the year.**

Fig. 2 - US Dollar exchange rate

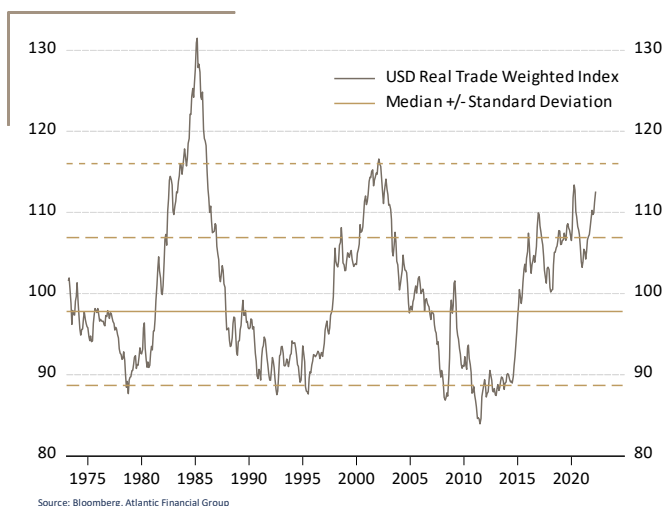
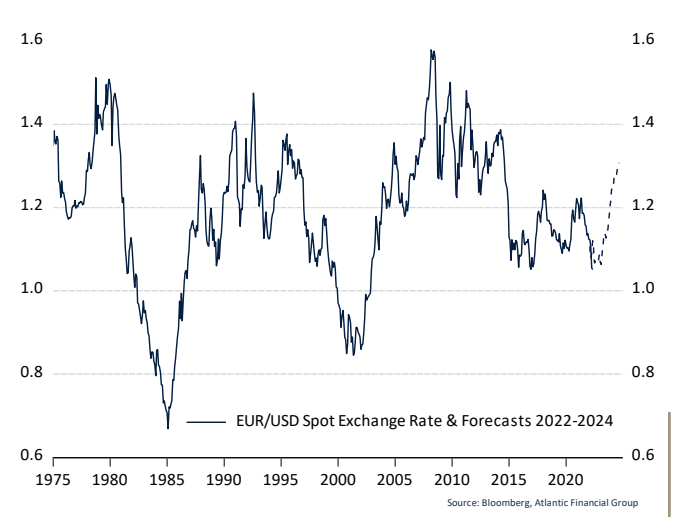


Fig. 3 - AFG forecasts for EUR/USD exchange rate



According to our estimates, all other things being equal, each 25 basis point increase in the Fed's key rates generates an appreciation of the dollar by 4 cents (see Fig. 4). However, the exchange rate has already priced in some of this news: nearly eight 25 basis point rate hikes are already anticipated by forex traders. If their expectations were to match those of bond investors, at more than 10 rate hikes in 2022, then the euro-dollar exchange rate could fall below the psychological threshold of parity (see Fig. 4).

Euro buyers will have to be patient. When the Fed changes its tone and investors anticipate an easing of US monetary policy, **only then will the dollar begin its downward trend.** This depreciation will be sustainable as the dollar has been overvalued for more than 7 years against the single currency. It would have to correct by -23% (or the euro by +30%) to close the gap with its long-term fundamental value of 1.36 (see Fig. 5 & Chart of the Week).



Fig. 4 - EUR/USD vs. 2-year interest rate differential

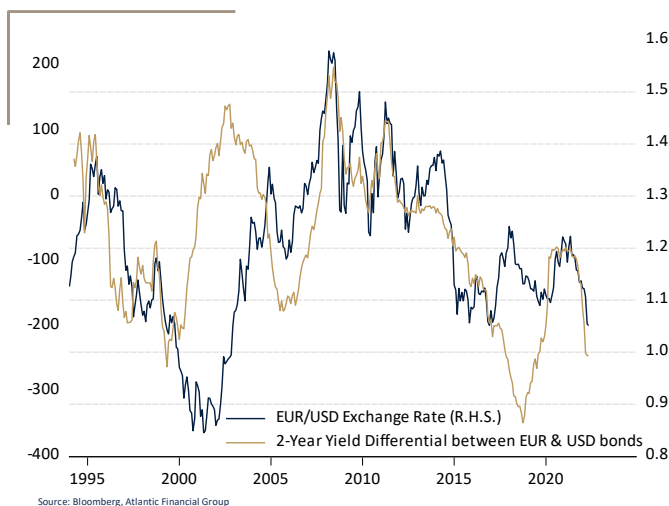
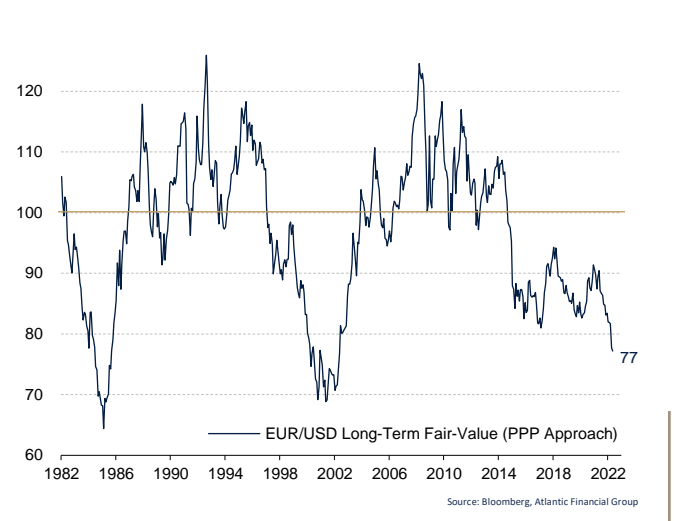


Fig. 5 - Over/undervaluation EUR vs USD



The strength of the dollar helps to explain the relative weakness of the pound sterling or the euro over the last 12 months. On the other hand, some currencies have evolved according to their own characteristics. This is the case of the ruble, which has just reached a record high despite the Russian invasion of Ukraine. Moscow has banned Russian companies and households from transferring their cash abroad or exchanging it for other currencies. At the same time, the Central Bank of Russia (CBR) increased its rates from 10% to 20% during the invasion and stabilised them at 15% recently, providing an additional incentive for Russians to hold on to their rubles. Central and South American currencies, such as the Mexican peso, the Brazilian real and the Peruvian sol, have benefited greatly from the rise in key rates, the decline in cases of covid-19 and the recovery of their economic activities. The Swiss franc, as always, benefited from its status as a safe haven and from the ability of Swiss companies to export. In contrast, the Turkish lira suffered from 70% inflation.

On this wrong side of the spectrum, the weakness of the Japanese yen (see Fig. 6) should be noted for two reasons. On the one hand, this depreciation reflects the suffering of Japanese companies, which are facing rising prices for imported goods and also sluggish domestic demand. In this context, it is very difficult for them to pass on the acceleration in production costs to final prices; they have no pricing power. On the other hand, the historic fall of the yen implies a loss of competitiveness for its Chinese neighbour. **The goods and services sold by Chinese companies appear less and less "cheap" compared to those sold in Japanese yen.** This is a major handicap at a time when the prices of Chinese exports are already on the rise. Indeed, the lockdowns imposed by Beijing are considerably slowing down Chinese production, weakening supply and eventually encouraging inflation.

We have regularly detailed the fact that the appreciation of the Chinese currency was one of the priorities of the political power in place, and undoubtedly even one of the pillars of its long-term economic development strategy. The appreciation of the CNY between June 2021 and March 2022, at a time when the dollar was strengthening against other currencies, is tangible proof of this (see Fig. 7).



Fig. 6 - Nominal effective exchange rates

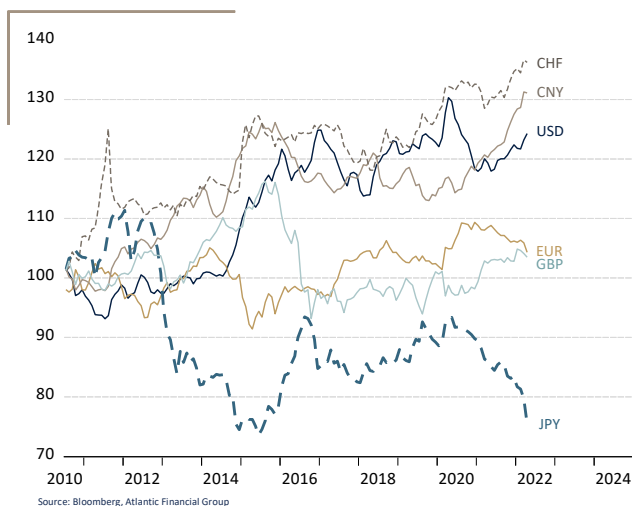
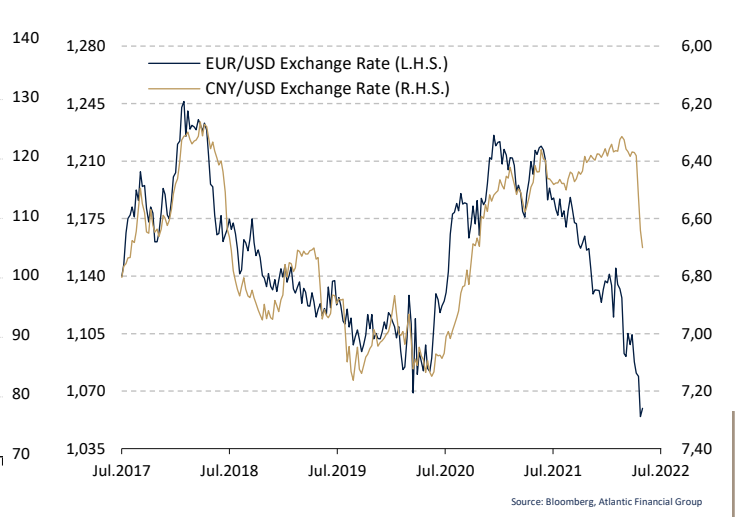


Fig.7 - EUR/USD vs CNY/USD exchange rates



Despite its desire to make the yuan an international reference currency, China cannot remain inactive in the face of the fall of the yen, the currency of its main competitor in Asia. It is therefore very likely that, temporarily and in contradiction with our previous analyses, the redback will depreciate against the greenback. The CNY, like the CNH listed in Hong Kong, has already lost -3.7% since mid-April. **It could lose as much more before stabilising at 6.9 yuan to the dollar, reproducing the scenario already experienced in 2018.** This does not change the long-term trend, but it is an unfortunate setback that investors could have done without.

Conclusion:

The appreciation of the greenback is not over. Only once the Fed has given the signal that it has done enough, indeed that it prefers to support growth rather than fight inflation whose causes are beyond its control, can the dollar depreciate. At that point, probably next year, the euro and even more so the Chinese yuan will once again be of interest to traders. The trend reversal could be brutal, as the US currency is highly overvalued.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2022 Year-to-Date (%)	2021 (%)	2020 (%)
Equities							
World (MSCI)	643.7	33.04	-1.5%	-8.2%	-14.1%	19.0%	16.9%
USA (S&P 500)	4 123	38.77	-0.2%	-7.9%	-13.1%	28.7%	18.4%
USA (Dow Jones)	32 899	40.70	-0.2%	-4.5%	-8.9%	20.9%	9.7%
USA (Nasdaq)	12 145	36.76	-1.5%	-12.5%	-22.2%	22.2%	45.0%
Euro Area (DJ EuroStoxx)	407.7	35.78	-3.7%	-3.5%	-13.6%	23.5%	0.8%
UK (FTSE 100)	7 388	41.78	-2.1%	-2.3%	1.5%	18.4%	-11.4%
Switzerland (SMI)	11 730	34.58	-3.3%	-3.7%	-6.6%	23.7%	4.3%
Japan (Nikkei)	26 319	50.48	0.6%	-1.3%	-5.4%	6.7%	18.3%
Emerging (MSCI)	1 032	29.97	-4.1%	-9.5%	-15.8%	-2.3%	18.8%
Brasil (IBOVESPA)	105 135	29.14	-2.5%	-11.1%	0.3%	-11.9%	2.9%
Russia (MOEX)	2 393	43.31	-1.9%	-8.1%	-36.3%	21.9%	14.8%
India (SENSEX)	54 486	35.57	-3.9%	-8.0%	-5.7%	23.2%	17.2%
China (CSI)	3 866	38.87	-2.7%	-8.3%	-20.8%	-3.5%	29.9%
Communication Serv. (MSCI World)	85.53	35.08	-0.6%	-12.9%	-22.1%	10.9%	24.2%
Consumer Discret. (MSCI World)	309.2	29.09	-4.2%	-12.6%	-24.4%	9.2%	37.0%
Consumer Staples (MSCI World)	272.3	35.20	-2.5%	-3.3%	-5.8%	11.7%	8.8%
Energy (MSCI World)	238.4	61.61	6.6%	5.0%	27.8%	37.5%	-27.7%
Financials (MSCI World)	134.4	31.22	-1.2%	-7.9%	-9.6%	25.1%	-3.1%
Health Care (MSCI World)	331.3	33.02	-1.6%	-7.9%	-9.6%	18.0%	15.4%
Industrials (MSCI World)	280.9	32.12	-1.4%	-6.1%	-14.7%	16.6%	11.8%
Info. Tech. (MSCI World)	447.1	37.88	-1.5%	-10.2%	-21.9%	27.6%	46.2%
Materials (MSCI World)	339.9	32.31	-2.3%	-7.5%	-5.5%	15.4%	21.6%
Real Estate (MSCI World)	203.4	29.51	-3.9%	-9.8%	-12.5%	23.6%	-5.7%
Utilities (MSCI World)	158.4	41.04	-0.1%	-5.5%	-1.7%	11.1%	4.8%
Bonds (FTSE)							
USA (7-10 Yr)	3.14%	28.48	-2.0%	-4.0%	-11.4%	-2.4%	9.3%
Euro Area (7-10 Yr)	1.80%	22.51	-2.0%	-4.2%	-11.2%	-2.9%	4.5%
Germany (7-10 Yr)	1.13%	26.50	-1.4%	-3.5%	-9.3%	-2.7%	3.0%
UK (7-10 Yr)	2.00%	37.98	-0.5%	-1.8%	-7.1%	-4.9%	5.4%
Switzerland (7-10 Yr)	0.99%	32.03	-1.0%	-2.4%	-8.6%	-2.3%	0.4%
Japan (5-10 Yr)	0.25%	40.54	-0.2%	0.0%	-1.3%	0.0%	-0.1%
Emerging (5-10 Yr)	7.11%	21.94	-1.1%	-5.5%	-15.3%	-2.3%	5.2%
USA (IG Corp.)	4.46%	29.09	-0.6%	-4.4%	-13.9%	-1.0%	9.9%
Euro Area (IG Corp.)	2.39%	16.41	-1.3%	-3.2%	-8.7%	-1.0%	2.8%
Emerging (IG Corp.)	6.96%	21.41	-0.7%	-3.5%	-13.5%	-3.0%	8.1%
USA (HY Corp.)	7.29%	20.09	-0.6%	-3.3%	-9.3%	5.3%	7.1%
Euro Area (HY Corp.)	6.75%	8.58	-1.6%	-4.2%	-8.6%	3.4%	2.3%
Emerging (HY Corp.)	9.76%	23.91	-0.8%	-4.4%	-11.4%	-3.2%	4.3%
World (Convertibles)	374.3	26.10	-2.1%	-7.4%	-14.6%	2.4%	38.8%
USA (Convertibles)	499.4	28.84	-2.7%	-8.7%	-15.8%	3.1%	54.5%
Euro Area (Convertibles)	3 656	26.30	-2.1%	-3.3%	-11.0%	-0.3%	6.1%
Switzerland (Convertibles)	176.7	32.42	-0.4%	-1.1%	-4.9%	-0.5%	0.5%
Japan (Convertibles)	196.9	49.67	0.2%	-0.7%	-1.9%	3.3%	2.8%
Hedge Funds (Crédit Suisse)							
Hedge Funds Indus.	726.7	57.23	n.a.	2.4%	n.a.	8.2%	6.4%
Distressed	966.8	72.08	n.a.	0.4%	n.a.	12.5%	3.8%
Event Driven	812.3	66.78	n.a.	0.3%	n.a.	12.9%	7.0%
Fixed Income	393.5	58.90	n.a.	-0.3%	n.a.	5.2%	3.6%
Global Macro	1 205.0	82.93	n.a.	8.8%	n.a.	9.6%	6.5%
Long/Short	927.5	58.37	n.a.	0.5%	n.a.	8.3%	7.9%
CTA's	341.6	77.41	n.a.	8.5%	n.a.	8.2%	1.9%
Market Neutral	290.1	66.52	n.a.	0.2%	n.a.	6.2%	1.7%
Multi-Strategy	696.9	75.82	n.a.	2.3%	n.a.	7.0%	5.6%
Volatility							
VIX	30.19	55.35	-9.6%	36.6%	75.3%	-24.3%	65.1%
VSTOXX	32.80	54.30	6.6%	1.7%	70.2%	-17.6%	67.5%
Commodities							
Commodities (CRB)	632.8	n.a.	-1.6%	-0.2%	9.8%	30.3%	10.5%
Gold (Troy Ounce)	1 871	37.65	0.4%	-4.0%	2.5%	-3.6%	25.1%
Oil (WTI, Barrel)	109.77	58.38	4.4%	14.1%	42.6%	58.7%	-20.5%
Oil (Brent, Barrel)	113.17	58.01	7.1%	12.0%	47.4%	51.4%	-23.0%
Currencies (vs USD)							
USD (Dollar Index)	104.090	69.33	0.3%	4.3%	8.8%	6.4%	-6.7%
EUR	1.0497	32.60	-0.1%	-3.6%	-7.7%	-7.5%	9.7%
JPY	131.33	28.77	-0.9%	-4.5%	-12.4%	-10.2%	5.1%
GBP	1.2264	25.99	-1.8%	-5.9%	-9.4%	-1.0%	3.1%
AUD	0.6998	34.00	-0.7%	-5.6%	-3.6%	-5.6%	9.6%
CAD	1.2947	34.48	-0.5%	-2.4%	-2.4%	0.7%	2.1%
CHF	0.9940	18.95	-1.6%	-6.3%	-8.2%	-3.0%	9.4%
CNY	6.7218	11.31	-1.7%	-5.2%	-5.4%	2.7%	6.7%
MXN	20.248	48.71	1.1%	-1.5%	1.8%	-3.0%	-5.0%
EM (Emerging Index)	1 680.9	23.07	-0.9%	-3.5%	-3.1%	0.9%	3.3%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



DISCLAIMER

This document is issued by Atlantic Financial Group (hereinafter "Atlantic"). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a document.

This document is provided for information purposes only. It does not constitute an offer or a recommendation to subscribe to, purchase, sell or hold any security or financial instrument. It contains the opinions of Atlantic, as at the date of issue. These opinions and the information herein contained do not take into account an individual's specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes a personal recommendation to any investor. Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Atlantic does not provide tax advice. Therefore, you must verify the above and all other information provided in the document or otherwise review it with your external tax advisors.

Investment are subject to a variety of risks. Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. The information and analysis contained herein are based on sources considered to be reliable. However, Atlantic does not guarantee the timeliness, accuracy, or completeness of the information contained in this document, nor does it accept any liability for any loss or damage resulting from its use. All information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice. Past performance is no guarantee of current or future returns, and the investor may receive back less than he invested. The investments mentioned in this document may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to and bear their associated risks. On request, Atlantic will be pleased to provide investors with more detailed information concerning risks associated with given instruments.

The value of any investment in a currency other than the base currency of a portfolio is subject to the foreign exchange rates. These rates may fluctuate and adversely affect the value of the investment when it is realized and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset. If opinions from financial analysts are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any given instruments. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. Atlantic may hold positions in securities as referred to in this document for and on behalf of its clients and/or such securities may be included in the portfolios of investment funds as managed by Atlantic.