

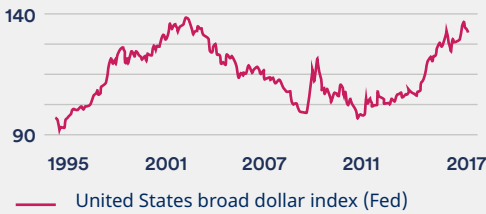


Has the dollar turned?

THE DOLLAR IS STRONG

- ⊕ Up 23% since July 2014
- ⊖ Puts US companies under pressure against international competition

US dollar at highs*:



TRUMP CALLS FOR WEAKER DOLLAR, but his influence is limited

LOOKING AHEAD

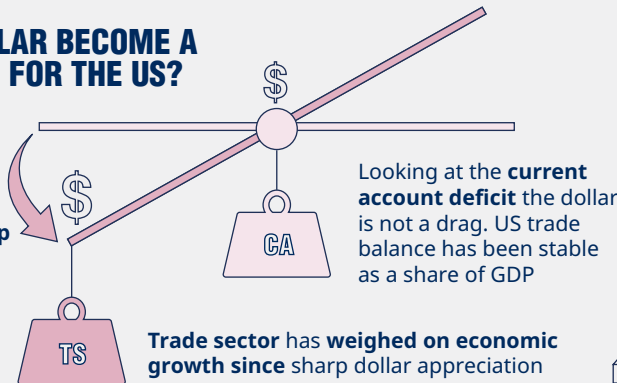
THE FUTURE OF THE DOLLAR

US interest rate hikes should support the currency but this is not certain

The dollar has **overshot** its long term-value so we may now see it weaken

HAS THE DOLLAR BECOME A MAJOR DRAG FOR THE US?

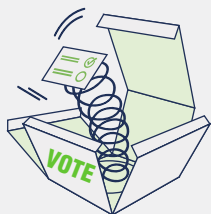
But this covers up deterioration in real performance



GLOBAL IMPACT OF A WEAKER DOLLAR

- ⊖ Might be an issue for Europe and Japan where deflation concerns remain prevalent
- ⊕ Would be a relief to emerging markets

UK: Election offers hope for softer Brexit



8TH JUNE 2017

SURPRISE ELECTION

likely to give Theresa May a larger majority strengthening her hand in negotiations



SOFTER BREXIT

- ⊕ Better for UK's long-term growth
- ⊕ Possibility cheered by investors pushing sterling up to 1.28 against dollar

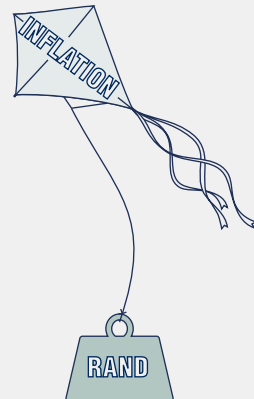
BUT WILL THERESA MAY CHOOSE HER PREFERRED "HARD BREXIT"?

CLOUDY OUTLOOK

CURRENT UK ECONOMY

- ☁ Household sector is suffering from inflation rise. Savings have hit record low
- 📉 Biggest quarterly drop since 2010 of 1.5% in retail sales
- ⚡ Election more urgent for the government as economy is on the verge of slowing

Déjà-vu in South Africa



PRESIDENT ZUMA'S FIRING OF A RESPECTED FINANCE MINISTER COULD PROVE PAINFUL

- ⊖ Domestic and international investors react negatively
- ⊕ Currency recently strengthened limiting inflationary impact despite initial rand vs dollar depreciation of 9.5%
- ⊖ No policy moves from central bank, but cuts not ruled out if growth struggles further

HEADWINDS AGAINST GROWTH

INVESTMENT - uncertainty over new policies may reduce willingness to invest

CONSUMPTION - weighed down by weak confidence and softening wage growth

CREDIT GROWTH - higher cost of credit as international investors demand a greater risk premium to lend

CREDIT QUALITY - potential downgrade to local currency debt could be significant growth threat, if it happens

Source: Schroders as at May 2017, RC61815

*Chart Source: Thomson Datastream, Schroders Economics Group. 26 April 2017

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