



Investment Insight

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“Trumping the Dollar.” It is still too early to know for sure why the value of the dollar has declined in recent months. But if the Trump administration does indeed pursue a deliberate policy of isolationism, foreign-exchange markets' increasing risk premia on the dollar will have been justified. In **The Inside Track**, we hear a considered opinion on the matter from former chairman of Goldman Sachs, Jim O'Neill.

Bosco would turn in his box. The recent sale by RTE of 8.6 acres at Montrose to Cairn Homes, at a reported cost of €107.5 million, works out at about €12.5 million per acre. Some way short on a per-acre basis of the price paid in 2005 for Jurys and Berkeley Court just down the road from Montrose, it nonetheless represents a significant outlay for Cairn. In **Pic of the Week** we take a closer look.

Quoted...

“The first ever Taoiseach who openly went to a Vinnie Murray Cup-winning school. I predicted this when McDowell became the Tánaiste. I said it was a slippery slope.” – Ross O'Carroll-Kelly

The Inside Track

Jim O'Neill, a former chairman of Goldman Sachs Asset Management and former Commercial Secretary to the UK Treasury, is Honorary Professor of Economics at Manchester University and former Chairman of the Review on Antimicrobial Resistance. The following are his recent comments.

One of the more fascinating developments in the seven months since US President Donald Trump was elected has been the trajectory of the US dollar, relative to other major currencies. After soaring in the wake of Trump's victory, the dollar's value began to slide in April. There are various explanations for this. One is that Trump's much-anticipated economic-growth agenda has not materialized, and stands no chance of making it through Congress. Another is that the rest of the world, not least the eurozone, has performed better than expected since Trump's election. According to conventional economic theory, the exchange rate can be calculated in terms of a currency's so-called purchasing power parity (PPP)...But when I was at Goldman Sachs, I developed my own very simple version of this framework: the Dynamic Equilibrium (Real) Exchange Rate (GSDEER). Right now, the GSDEER for the euro-dollar exchange rate is around €1:\$1.20, which would suggest that the dollar is overvalued against the euro by about 6-7%. I also developed what I called the Adjusted GSDEER, which corrects the “equilibrium” rate for the ongoing economic cycle, by accounting for factors such as the real interest-rate differential between the US and the eurozone...the Adjusted GSDEER for the euro-dollar exchange rate, as of June 7, was €1:\$1.0590. Given that the dollar was trading at around \$1.1250 against the euro on that day, this suggests that the dollar is actually around 6% weaker than it should be.

Now, of course, 6% is not a particularly significant difference, and this finding may not mean anything at all. Those who are bullish on the dollar (and who probably have plenty of underlying biases) would tell you that now is an ideal time to buy dollars, as the value is sure to rise. They may be right. The US economy could start to grow at a faster rate; Trump might somehow get some of his growth-boosting policies enacted; and Europe's growth may taper off. On the other hand, the eurozone could maintain its amazing ascent; and the Trump administration may continue to disappoint. Moreover, Trump's proposed policy framework might very well deserve to have a rising risk premium. It is still too early to know for sure, given that the stock market continues to reach new heights, while US bond yields have softened. But if the Trump administration does indeed pursue a deliberate policy of isolationism, high risk premia on the dollar will have been justified, especially when one accounts for the persistently low US domestic savings rate and high dependency on net foreign capital.

Some economic observers have long believed that the US cannot sustain an economy in which personal consumption constitutes 70% of GDP. And for a brief period in 2008-2009, it looked as though the US economy could be on the verge of a major structural adjustment, some of which could have been helpful, if it reduced consumer dominance. Fortunately, the worst was avoided. But almost a decade later, US domestic consumption once again accounts for more than 70% of GDP. There are good ways and bad ways to shrink the consumption share of GDP to a more appropriate size. The good way is for the US to import less and export more, and to increase its domestic savings and investment. The bad way – particularly for American consumers – is for the US to pick fights and retreat from the world. Trump and his advisers would do well to act accordingly.

Pic of the Week

And...sold for €12.65m per acre. In rough terms, with a plan for 500 apartments and 9 houses, the purchase of a site in Montrose by Cairn Homes works out at approximately €200,000 site cost per apartment. While they won't be cheap residences, Cairn should nonetheless be in a position to realise a satisfactory outcome for its shareholders. Between now and payday lie minor technicalities such as architecture and engineering costs, planning permission, social and affordable allocation to the local authority, levies, groundworks to name but a few. And then they've to build them. Poor Bosco would turn in his box.



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+0.0%	+19.5%	+8.5%	+10.8%
US equities	-0.3%	+17.1%	+8.4%	+12.6%
European equities	-0.4%	+20.0%	+6.8%	+9.2%
EM equities	-0.5%	+25.4%	+17.6%	+1.8%
Irish equities	-0.3%	+16.1%	+7.0%	+17.8%
Commodities	-1.7%	-3.0%	-7.7%	-8.9%
Hedge funds	-0.1%	+6.2%	+2.5%	+2.0%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+0.7%	+0.2%	+7.2%
Germany	+0.3%	+1.5%	+1.7%
USA	+2.2%	+1.9%	+2.0%
China	+3.6%	+1.5%	+6.9%

Currencies	Current	YTD Δ
EUR:USD	1.11	+5.9%
EUR:GBP	0.87	+2.4%
EUR:CNY	7.59	+3.4%
GBP:USD	1.27	+3.3%
Bitcoin	2,299.50	+141.5%

Week ahead: Key events

19/06 UK & China Property Prices
20/06 China Leading index
21/06 UK Mortgage Applications & US Existing Home Sales
22/06 US Initial Jobless Claims & Leading Index
23/06 Japan Manufacturing PMI
23/06 Eurozone PMI Data

Commodities	<i>Current</i>	<i>YTD Δ</i>
Gold	1,253.40	+8.8%
Copper	5,668.50	+2.6%
Oil	46.89	-20.3%
Wheat	447.00	+2.9%

Central Bank rates	<i>Current</i>
Eurozone	0.00%
USA	1.25%
UK	0.25%

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