

MARKETS (FX & SE) BEFORE THE TRUMP ERA

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Today is the inauguration of Donald Trump as the 45th president of the U.S. Many controversial things have been said by him in the last months. What is he really going to do once he is in office is still uncertain. If we should have to define him at this moment we would only say: “unpredictable”. And unpredictable is uncertainty. And markets can tell us a little bit of what investors are perceiving. Let’s take a look to the Exchange Rate market (FX) and the Stock Exchange market (SE). As we usually do, we base our analysis in numbers and statistics rather than rumors. In the coming days, some of these numbers can significantly change.

On Table I we have the exchange rates vs the USD (the US Dollar) for 10 different currencies: CAD (Canadian Dollar), MXN (Mexican Peso), BRL (Brazilian Real), CPL (Chilean Peso), EUR (Euro), GBP (British Pound), JPY (Japanese Yen), CNY (Chinese Yuan), AUD (Australian Dollar) and ZAR (South African Rand). For each one, the exchange rate for December 2015, October 2016, November 2016, December 2016 and January 19, 2017 is presented. Also, the depreciation or appreciation of each currency for the period from October 2016 (just before the election where Trump won) and January 19, 2017 (one day before the inauguration). This is almost 4 months. At last, the depreciation or appreciation from December 2015 to January 19, 2017 is presented as an exercise of what a longer period (almost 13 months), before even Trump was considered a potential winner, can tell us.

Table I - EXCHANGE RATE

| | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
|---------|----------|----------|----------|----------|-----------------|--------------------------------|--------------------------------|
| | Dec 2015 | Oct 2016 | Nov 2016 | Dec 2016 | Jan 19, 2017 | Oct 2016 to Jan 19, 2017 | Dec 2015 to Jan 19, 2017 |
| USD/MXN | 17.00 | 18.95 | 19.94 | 20.51 | 21.94 | -13.6% | -22.5% |
| USD/JPY | 120.19 | 105.04 | 113.90 | 116.55 | 115.03 | -8.7% | 4.5% |
| USD/EUR | 0.920 | 0.914 | 0.943 | 0.948 | 0.938 | -2.6% | -1.9% |
| USD/CLP | 709.2 | 649.4 | 675.7 | 671.1 | 660.5 | -1.7% | 7.4% |
| USD/CNY | 6.488 | 6.769 | 6.897 | 6.940 | 6.869 | -1.5% | -5.6% |
| USD/CAD | 1.370 | 1.325 | 1.344 | 1.334 | 1.332 | -0.5% | 2.8% |
| USD/AUD | 1.372 | 1.317 | 1.353 | 1.381 | 1.323 | -0.5% | 3.7% |
| USD/BRL | 3.960 | 3.184 | 3.389 | 3.255 | 3.196 | -0.4% | 23.9% |
| USD/ZAR | 15.48 | 13.50 | 14.11 | 13.74 | 13.54 | -0.4% | 14.3% |
| USD/GBP | 0.678 | 0.822 | 0.801 | 0.809 | 0.811 | 1.4% | -16.4% |

USD: US Dollar, CAD: Canadian Dollar, MXN: Mexican Peso, BRL: Brazilian Real, CLP: Chilean Peso, EUR: Euro, GBP: British Sterling Pound, JPY: Japanese Yen, CNY: Chinese Yuan, AUD: Australian Dollar, ZAR: South African Rand

If we look at column (f) we can see that since the election and up to yesterday, the currencies that have clearly depreciated against the USD are the MXN and the JPY. Besides their internal situation in each of these countries, it could be that the expected Trump effect has not been perceived as favorable for them. Specifically, in the case of Mexico, if we see column (g) we can see that the depreciation has been constant since December 2015 (22.5%), this is, even before Trump was even considered a potential winner of the election.

Some currencies have had almost a null change in the last 4 months having less that a +/-1.0%. Among these are the CAD, AUD, BRL and ZAR. The GBP has had an appreciation against the USD in the last 4 months, but shows a significant depreciation since December 2015.

What's interesting about the MXN? Trump has threaten several times the future of the NAFTA. This should be affecting both the MXN and the CAD (both countries are very export dependent with the U.S.), but it has only affect the MXN. In the last almost 13 months the MXN has depreciated 22.5% against the USD. This weakens the MXN, making it more attractive for exports from Mexico and therefore putting the Mexican export companies in an even more competitive situation against the U.S. If Trump is planning in making it difficult for Mexican exports and even a possible import tax from Mexico (and Canada), a weak MXN is quite a good news for Mexico. It'll be difficult to compete against the cheap products from Mexico thanks, in this case, to a low value of the MXN.

On Table II we have the behavior of 10 indices of the Stock Exchange: US Dow Jones, US Nasdaq, US S&P, Canada TSX, Mexico IPC, Brazil Bovespa, UK FTSE, Germany DAX, Japan Nikkei and Australia ASX. A stock index is the weighted average of a sample of the price of stocks in a market. And the market price of a stock is usually defined by investors based on future perceptions both for the market in general, for the industry and for a company in specific. Therefore, an index can be a good indicator of the future perception of the environment of a market in a specific country.

Table II – INDICES OF DIFFERENT STOCK EXCHANGE MARKETS

| | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
|----------------|----------|----------|----------|----------|-----------------|--------------------------------|--------------------------------|
| | Dec 2015 | Oct 2016 | Nov 2016 | Dec 2016 | Jan 19, 2017 | Oct 2016 to Jan 19, 2017 | Dec 2015 to Jan 19, 2017 |
| Mexico IPC | 42,978 | 48,009 | 45,316 | 45,643 | 46,265 | -3.6% | 7.6% |
| Brazil Bovespa | 43,350 | 64,925 | 61,906 | 60,227 | 63,951 | -1.5% | 47.5% |
| UK FTSE | 6,242 | 6,954 | 6,784 | 7,143 | 7,208 | 3.7% | 15.5% |
| Canada TSX | 13,010 | 14,787 | 15,083 | 15,288 | 15,410 | 4.2% | 18.4% |
| US S&P | 2,044 | 2,126 | 2,199 | 2,239 | 2,264 | 6.5% | 10.8% |
| US Nasdaq | 5,007 | 5,190 | 5,324 | 5,383 | 5,540 | 6.7% | 10.6% |
| Australia ASX | 5,296 | 5,318 | 5,441 | 5,666 | 5,692 | 7.0% | 7.5% |
| Germany DAX | 10,743 | 10,665 | 10,640 | 11,481 | 11,597 | 8.7% | 7.9% |
| US Dow Jones | 17,425 | 18,142 | 19,124 | 19,763 | 19,732 | 8.8% | 13.2% |
| Japan Nikkei | 19,034 | 17,425 | 18,513 | 19,114 | 19,072 | 9.5% | 0.2% |

On column (f) we can see the change for each index since October 31, 2016 to January 19, 2017 (almost last 4 months). A negative number can literally be a negative perception of the future for that market, and a positive number would be the contrary. In this case, negative numbers can be seen in Mexico and Brazil. This is, perception of the future for these markets has in average decreased in the last 4 months. In spite of possible non friendly actions from Trump's administration, 8 of this 10 markets have a positive trend in the last 4 months. Is this telling us that, after all, markets are still quite comfortable with Trump's policies, especially in what business and international trade refer to?

If we look at column (g), this is, the gain of these indices in the last 13 months, from December 31, 2015 to January 19, 2017, all of these markets have a positive yield. Clearly low for these 13 months would be the case for Japan, only.

What will happen in the coming months? It has a lot to do with real actions that the new Trump administration takes. As we said, up to now a lot has been said by Trump. How much will turn into real actions? We should not underestimate the new president; anything can be expected. We will keep a follow up.

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About Acus Consulting. This firm supports companies, organizations and government agencies in financial and strategic analysis, investment project evaluations, financial modeling, valuation of ongoing companies, financial planning, risk analysis and decision making. Acus Consulting works in consulting projects and offers seminars and workshops of finance for executive training. It is based in Toronto.

About Alberto Calva. His expertise field is finance and economy. He has been a business consultant for more than 20 years. He has given seminars and workshops in 8 different countries having trained with this around 10,000 executives and entrepreneurs from 20 different countries. He has a unique mix of academic, practical, entrepreneurial, hands on experience and board member background. He holds a Bachelor degree of Industrial Engineering, a Master degree of Economics and an MBA with a major of Finance.

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