



SPECTRUM

THE EURO... A ROBUST RESERVE CURRENCY

by Tobias Stöhr, Sales Executive at Spectrum Markets



Over the past twelve months, on balance the euro has been gaining against the U.S. dollar. Although there were periods of decline, particularly since January this year, at the time of writing the single currency is still up more than 10%.

What's behind the strengthening of the euro?

The second half of March 2020 not only saw stock markets turn around after a severe crash and start an impressive recovery; that point in time also marked the reversal of a two-year downward trend of the euro against the U.S. dollar. Obviously, it was not entirely by coincidence that these two changes of direction happened simultaneously – here are some of the key reasons:

- Due to the Covid-19 pandemic, international trade flows declined. As a lot of international trade is conducted in dollar – especially commodities – the demand for the currency lessened.
- While in the U.S. as well as in the eurozone stimulus packages were launched to support the economy, the Federal Reserve had more room to lower interest rates: in two emergency rate cuts by overall 150 basis points, interest rates were brought down to zero. By contrast, the European Central Bank had already reduced interest rates to zero back in 2016 and kept it at that level ever since. That means, borrowing in the U.S. currency became relatively cheaper.
- U.S. governments haven't been objecting a weak dollar for almost two decades. This stance on the currency policy was further reinforced during the last presidential term with the administration officially stating that a weaker dollar would be good for the U.S. trade balance.

While the value of the euro against the dollar continued to increase into the beginning of 2021, the single currency registered losses in the first quarter. This may have to do with the slow roll-out pace of the vaccines in the European Union so far, as this could lead to a delay of the anticipated economic recovery. Also, retail sales in the eurozone declined significantly in January while the Federal Reserve refuses to commit to lowering yields.

In any case, the multiple variables make it difficult to predict how the EURUSD pair will develop over the next few weeks or months. In all likelihood the valuations will remain volatile for some time.

In general, currency fluctuations can provide huge opportunities for traders, although of course, a thorough understanding of the risks involved is required. Brokers who are looking for an innovative new trading venue where their retail clients can take long or short positions on a securitised derivative on EURUSD may want to consider connecting with Spectrum Markets.

Also available for trading are securitised derivatives on EURGBP, EURJPY and other currency pairs as well as on a range of indices and commodity derivatives. All products can be traded 24 hours a day, 5 days a week.

Get in touch today to discuss how we can help you to grow your retail client business.

Please don't hesitate to get in touch if you wish to receive further detail.

spectrum-markets.com

Tobias Stöhr

Sales Executive

+49 69 4272991 81

tobias.stoehr@spectrum-markets.com

Spectrum is the trading name of Spectrum MTF Operator GmbH. Headquartered in Frankfurt, Germany, we offer a new way of dealing in leveraged products for the European retail market; introducing a purpose built 24/5 lit trading venue, with complete transparency, increased choice and maximum control