



Daily Macro Insights: Burgernomics and the expensive USD

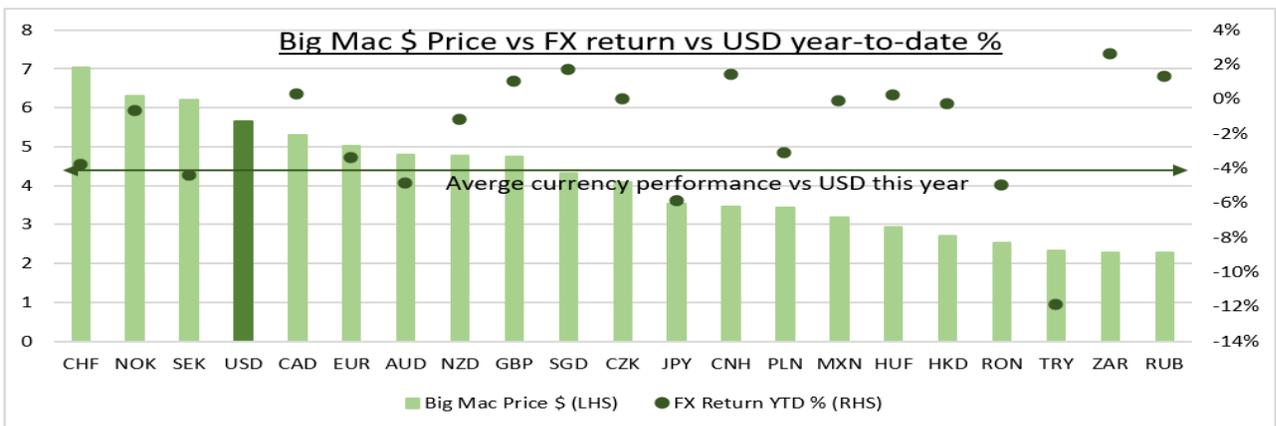
22/09/2021

BURGERNOMICS: The Big Mac index is a useful short-hand for currency valuation, with a decent track-record of being right medium term. Switzerland (CHF) and Norway (NOK) are the most overvalued today, with the USD itself, whilst Russia (RUB) and South Africa (ZAR) are cheapest and their currencies performed well this year. Both the Pound (GBP) and Euro (EUR) have swung to modest cheapness, from prior expensive levels, giving some room to rally further.

WHAT IT TELLS US: Russia and South Africa Big Macs are 60% cheaper than US, and their currencies are among the best performers this year. Similarly, Switzerland (25% overvalued) and Sweden (10%) have some of the most expensive burgers (though historically even more expensive), and amongst weaker currencies this year. The index is not infallible. The cheap can get cheaper (Turkey) or do well for other reasons (CAD and NOK driven by oil prices), but it is a good medium-term valuation indicator. The other takeaway is that [USD is expensive](#), supporting our call for some weakness ahead, and a help for emerging markets, commodities, and US tech.

THE INDEX: The [Big Mac index](#) was created by The Economist in 1986 as a light-hearted way to compare whether currencies were over or under-valued. The theory (PPP-Purchasing Power Parity) is that long run exchange rates should equalise, so that similar goods have similar prices. It has spawned several spin-offs for similar globally available and standardised products, like the tall latte (Starbucks), Billy bookshelf (IKEA), iPhone (Apple), and streaming (Netflix) indexes.

TODAY: US Fed meets, and publishes new forecasts ('dot plot'), as think tapering \$120 billion /month bond purchases, as prelude to hiking interest rates. We see a dovish delay to November.



Source: The Economist, Refinitiv, eToro calculations

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