

FX: Activity management

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⬇ USD: Activity data is key right now

Investors have long ago abandoned concerns about upside risks to inflation and are instead wholly focused on slowing activity and the scale of the downturn. Activity and confidence data is now of paramount importance and there could be a little more focus than usual on today's third release of 4Q18 US GDP data, where some are going for a large downward revision to the previously reported 2.6% quarter-on-quarter annualised. This won't help matters. We do, however, think that the current bout of volatility in Brazil and Turkey (weighing on the emerging market asset class) and profit-taking after a very strong 1Q19 for risk assets is exaggerating the current correction and we also think the 30 basis points of cuts priced into Fed Funds this year looks excessive. For the short term, however, DXY looks vulnerable to the massive erosion in USD yield differentials and could easily head back to 96.

⬆ EUR: What happened to eurozone confidence in March?

The highlight today will be the European Commission's economic confidence indicator for March.

This has fallen for eight months in a row, but our team actually looks for a small increase here. News also that the European Central Bank could help banks by introducing a tiered system of reserve charges (as in Switzerland) could also be a mild euro positive. Given the massive narrowing in EUR:USD rate differentials, we have a slight bias for EUR/USD to the 1.1320/50 area. What can we say about the pound? There's not enough clarity to unlock a big re-rating, so it's a volatile 1.30-33 range for cable.

📉 CZK: CNB on hold due to global uncertainty

We expect the Czech National Bank to stay on hold today due to the uncertain global environment ([see CNB Preview](#)). This should outweigh the currently weaker-than-expected Czech koruna and higher core CPI. The CNB board is likely to wait for a new set of economic forecasts in the May meeting before any policy reaction. The potential risk of a dovish bias during the press conference (given the dovish surprises from the central banks globally and weak eurozone data) points to upside risks to EUR/CZK today, with the cross likely to move above 25.80.

➡️ MXN: Banxico to join the doves?

Our team expects Mexico's Banxico to turn slightly dovish from its current neutral/slightly hawkish setting, but it seems too early for a dissenter to be voting for a cut. That said, we do see Banxico in a position to cut rates by 3Q19 at the latest (and late June at the earliest), which should provide an encouraging backdrop for the local bond market. What about the Mexican peso? We think a sell-off on any surprise dovishness should prove temporary given the 5.25% interest rate cushion the MXN enjoys over the USD. Any USD/MXN move into the 19.40/50 area later today looks a sell for a move back to 19.00/19.10.

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