

28 March 2019
Article

FX: Activity management

Activity and confidence data is now of paramount importance to the markets. But we do think that the current bout of volatility in Brazil and Turkey and profit-taking after a very strong 1Q is exaggerating the current correction

Content

- USD: Activity data is key right now
- EUR: What happened to eurozone confidence in March?
- CZK: CNB on hold due to global uncertainty
- MXN: Banxico to join the doves?



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.

Chris Turner

Global Head of Strategy and Head of EMEA and LATAM Research

+44 20 7767 1610

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.