

Another big week for the dollar

Momentum is undoubtedly with the dollar and this week will be decisive for its near-term trend



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USD: Decisive week for near term trend

Momentum is certainly with the dollar and this week should have a major say in whether the DXY rally extends another 2.5% (as some chart pattern suggests) or reverses. Inputs to the story come from all sides. The macro story should be supported with better activity data culminating in a strong NFP on Friday with upside risks to wages.

Wednesday's FOMC statement should also be upbeat and do little to alter the market's 85% probability of a Dec rate hike. US Treasury will announce its quarterly refunding on Wednesday too, which could be of greater interest now that the Fed is shrinking its balance sheet. The same day will also see the House revealing its planned tax reform bill, which all sounds dollar positive.

Against that could be clarification that Jerome Powell gets the nod for the Fed Chair, potentially announced Friday and the left-field story of Grand Jury indictments being announced in Robert Mueller's probe into Russian involvement in the 2016 Presidential election – which could potentially damage Trump and hurt the dollar. Technical Analysis can help gauge the market reaction here. DXY needs a quick break back under 94.15/20 to take the steam out of dollar's upside.

EUR: Positioning still relatively long EUR

The ECB will be happy with the way EUR is behaving after Thursday's ECB meeting. Bund yields have incredibly fallen alongside the EUR. As above we think the USD side of the equation will be a key driver of EUR/USD this week.

Unless politics including Powell nomination, impassable tax plan or indictments weaken the dollar and send EUR/USD through key resistance this week 1.1670/80, the bias looks to be for a move towards 1.1500 and (outside risk to 1.1320). This kind of downside is not our preferred view, and we note on a recent US client trip many US corporates preferred to buy EUR/USD near 1.15. In terms of today, look out for German CPI, a precursor to Eurozone flash CPI tomorrow.

GBP: Gearing up for a rate hike on Thursday

The BoE is widely expected to hike rates 25bp on Thursday, which is giving GBP some support on the cross.

GBP also dodged a bullet by not being downgraded by S&P and Fitch on Friday

While some modest further downside could be seen in EUR/GBP towards 0.8800, we're not particularly negative on the EUR right now and would probably see 0.8800 as the bottom of the near term range.

ZAR: Downgrade threat will loom in November

Even if the dollar trend softens a little, we would expect the ZAR to lag any high yield FX recovery. The threat of downgrades by S&P and Moody's on Nov 24th, prompting SA's expulsion from benchmark bond indices, should keep ZAR under pressure. Long TRY/ZAR positions could start to look interesting now.

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

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