

## Another tough week for emerging markets

Will Argentina get an expedited IMF deal and will the US impose further tariffs on China? Emerging markets remain vulnerable this week



Source: [www.buenosairesfotogenica.com](http://www.buenosairesfotogenica.com)

### USD: Aggressive trade policy and strong US data to keep USD/EM bid

It looks like we're going to see another week of dollar strength against emerging markets and activity currencies and perhaps also some greater demand for the safe havens of Japanese yen and Swiss franc. Beyond today's release of Turkish inflation for August, investors will be watching: (i) does Argentina get an expedited IMF deal on Tuesday, (ii) does the return of US Congress and testimony from social media executives refocus on Russian sanctions Wednesday and (iii) does President Trump, after the end of the consultation period, sign off on 25% tariffs on the next \$200 billion of Chinese imports on Thursday? Add in what should be a strong US jobs report on Friday and we would expect USD/EM to push further ahead. Also vulnerable should be the likes of the Australian, New Zealand and Canadian dollars and the Swedish krona, which will suffer on the deteriorating outlook for global trade volumes. FX activity could be muted today because of the US Labor Day holiday, but on the week favour DXY to 95.70 rather than 94.50.

Please see our full [G10 FX Week Ahead](#).

## EUR: BTP watch

Fitch was quite aggressive in shifting its Italian sovereign outlook to negative last Friday, which sets the tone for Italian budgetary discussions this month. Among many of Fitch's concerns was its position that the Italian government would not serve a full term, potentially triggering early elections in 2019. Even though the eurozone macro data might hold up a little better over coming months, Italy will be a dark cloud hanging over the euro and suggests the likes of EUR/JPY heads back to the lows at 125. EUR/USD looks biased to the 1.1500/1510 area this week, with 1.1640/60 the top of the range.

## GBP: Fleeting gains from Barnier's comments

Sterling's gains from optimistic comments by EU Brexit negotiator Michel Barnier last week are ebbing away and the focus could shift to a leadership challenge against Theresa May ahead of the 30 September Tory party conference. If 1.2900 doesn't hold, cable could easily see 1.2800.

## ARS: Show me the money

Argentina has fiscal/financing challenges that are unlikely to be resolved with monetary policy action alone. The confidence crisis is likely to be definitively resolved by a combination of stronger fiscal commitment on the part of the Argentinean government and an agreement with the IMF to frontload the disbursements of the agreed stand-by agreement so that the remaining rollover risk of maturing sovereign debt is completely eliminated until the end of next year. An announcement addressing this issue is likely to be announced early this week – perhaps Tuesday. This may remove Argentina as the epicenter of the emerging market crisis, but expect concern to rotate probably to China and Russia this week – largely due to events in Washington.

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