Brief relief from dollar repression

Is support slipping for a December Fed rate hike?

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USD: Uncertainty over Fed path allows brief emerging markets recovery

Away from the uncertain outcome of US-China trade talks at the end of the month (expectations are low after a fractious APEC meeting), a theme emerging late last week was a modest re-pricing of the 2019 Federal Reserve policy path. Two-year USD swap rates have fallen 15 basis points from their highs earlier this month. Driving this benign decline has been remarks from a few FOMC members that the global environment shouldn't be ignored in policy setting and even a comment on Friday from Patrick Harker (a non-voter) that he wouldn't support a December rate hike. We've seen similar market moves before – e.g. two-year swap rates fell 30 basis points in May – and again we would see this as a correction to the prevailing trend of another Fed hike in December and three more through the first three quarters of 2019. This benign correction in US rates and the dollar may extend through the week into Thursday's US Thanksgiving holiday – especially since market positioning is heavily long dollars, short Treasuries and overweight US equities. And the benign nature of the correction should tend to favour dollar weakness (perhaps 1-2% on the week) more against the high yielders/emerging market FX than against the low-yielding euro and Japanese yen. Look out for a speech from the Fed's John Williams at 1645CET today. The US dollar index to trade well within 96-97.

EUR: Taking a breather

There has been some encouraging support for a new EU budget from the French-German axis, but we doubt this is a major game-changer for EUR/USD near term. Instead the slightly softer dollar has allowed a modest bounce, but we expect this to fade well ahead of 1.1500. In fact, the EUR should increasingly be seen as a funding currency and after last week's breakout in this year's AUD/USD bear trend, we expect short EUR/AUD positions to prove popular for the short term. The eurozone calendar is relatively light this week, with the highlight being November PMIs on Thursday – shedding light on whether 4Q18 can be any better than a miserable 3Q18 for eurozone activity.

GBP: May to ride out the leadership challenge

The leadership challenge to Prime Minister Theresa May is still some way off securing the 48 names required, with most observers assuming there's no way they'll get the 150+ votes required to unseat her. Equally, there seems little chance of May getting her Withdrawal Agreement through Parliament. GBP/USD therefore looks set to trade close to the lower end of the four-month range at 1.2670/2700 and not recover unless her agreement receives some surprise support.

RUB: OPEC+ could help oil and the rouble

A breakdown in US-Saudi relations could warn that OPEC+ is more likely to cut output in December. This could help oil recover from its sharp sell-off and provide further support to the rouble, buoying seasonal trends. USD/RUB to 65.00.

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