

Brief relief from dollar repression

Is support slipping for a December Fed rate hike?



Source: Shutterstock

📉 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.

Author

Chris Turner

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

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 N.V. 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. 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 authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. 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.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.