

Dollar boxed into a Mueller corner

Reality checks for USD



Source: Shutterstock

Mueller charges add to tax reform reality check

As per with the US these days, we remain on the edge of our social media seats. While we were expecting the focus this week to be on a forthcoming House Tax Bill and the President's Fed Chair nomination, stealing the limelight is US special counsel Robert Mueller, who issued the first charges related to his investigation into Russia's involvement in the 2016 US Presidential election. Political risks were one of the factors contributing to the dollar's weakness over the summer and a potential resurfacing of these concerns will certainly take some of the steam out of its recent recovery. More broadly, we're less optimistic that tax reforms will be a game-changer for our \$ outlook anytime soon, not least due to the difficulties the White House will face in getting any bill through Congress. DXY to slide to 94.00.

EUR: Clean sweep of positive EZ data releases may provide welcome relief

In what our economists are calling 'Super Tuesday', today will see the release of 3 key eurozone economic indicators: 3Q GDP, flash October CPI and September unemployment. The focus for the EUR is now on the timing of the first deposit rate hike and here it's all about underlying inflation dynamics; if core inflation can drift up to 2% and show signs of becoming self-sustained, then calls

for a rate hike will grow louder. A small uptick in core CPI to 1.2% today would be a step in the right direction – but there are risks that it remains stuck at 1.1% given that German core inflation was stable in October. A clean sweep of positive EZ data releases will be a welcome pick-me-up for the EUR's post-ECB hangover. EUR/\$ to test the 100-day daily moving average.

GBP: 'Gotta have faith' that a Brexit 'No Deal' will be avoided to go long

'Sterling's post-Brexit fall matters more for inflation than you think'. This may well be one of the crucial messages the Bank of England signals this week as it looks set to hike rates. As we stated in our note GBP: ['The Carney Put'](#), Bank officials will need to give the illusion that this is more than a one-and-done policy move to nip their currency-related inflationary concerns in the bud. We expect them to be successful in doing so, with the signal of a 'gradual' tightening cycle retaining an element of policy flexibility – while steepening the UK rate curve a bit.

Yet, we're aware that the big picture focus for GBP remains Brexit – and we expect there to be some focus on a parliamentary testimony by Brexit Secretary David Davis on the economic implications of a 'No Deal'. An optimistic GBP outlook does require having bold faith in politicians to follow the economically rational path of a mutual divorce agreement with a status-quo transitional period until trade talks are over. With the 'Carney Put' in place, we are more comfortable in enlisting such faith in politicians and retain a constructive GBP outlook (GBP/\$ 1-month target 1.35).

CAD: Scope for further downside with markets 50:50 over Dec BoC hike

It's a big day for the loonie with Aug GDP data and a parliamentary testimony by Bank of Canada Governor Poloz in focus. Despite having fallen quite sharply in the past few weeks, we still think there is further room for CAD to move lower as markets fully price out the scope for a December BoC rate hike (currently a 47% probability is priced in). Muted GDP growth (consensus is for 0.1% MoM) and further cautious policy talk from BoC officials may just be the catalysts for a dovish BoC repricing. While we have been calling for a retrace up to the OECD PPP fair value estimate of 1.27, there's a chance \$/CAD now overshoots this in the near-term – with 1.30 likely.