

## Emerging market woes support the dollar

Worries about emerging markets have deepened after a plunge in Argentina's peso and continued slump in the Turkish lira



Source: Niels Mickers

### USD: Staying bid against EM FX

The expected increase in the US July core CPI to 2% year-on-year is unlikely to translate into material US dollar gains as it was widely anticipated by the market and a fair degree of Fed tightening (42 basis points) is priced in for the remainder of the year. Yet, we look for the USD to stay bid particularly against the emerging market FX segment where a meaningful decline in risky currencies (Argentine peso plunged following reports that local authorities asked for an earlier disbursement of IMF funds and the Turkish lira slumped amid continued inaction from local politicians and the central bank) is spilling over into the wider risk sentiment. We see more upside risk to USD/TRY in coming weeks as August Turkey CPI (9 September) is likely to rise further while the odds of a meaningful and sufficient hike at the September CBT meeting (13 September) are not particularly high.

### EUR: Individual eurozone CPIs won't alter near-term outlook

Individual countries within the eurozone release their preliminary CPI readings for August today. German headline inflation is likely to hover around 2%. Yet given the ECB's dovish rate guidance (first deposit rate hike signalled only after summer 2019) we don't look for a material reaction in

the euro to today's data (which should lead to 2% headline eurozone CPI tomorrow). We expect speculative positioning and the associated correction to provide further support to EUR/USD in the near-term.

## GBP: Domestic politics to dampen GBP upside in the near-term

While the pound rallied sharply in response to comments by the EU's Brexit negotiator Michel Barnier yesterday, we think it is too early and premature to position for more meaningful pound strength in coming weeks. As per [GBP: Barnier's Brexit Boost](#), the biggest test for the pound will be the return of a divided UK parliament from its summer recess and the upcoming Party Conference Season. A murky UK political backdrop may continue to put a dampener on GBP upside in the near-term. But as for today, GBP should continue benefiting from yesterday's boost and EUR/GBP is likely to converge to 0.8950.

## CAD: Upside risk as BoC policy path underestimated

Our economists are looking for 3.0% quarter-on-quarter annualised GDP growth for Canada in 2Q. This is a touch stronger than the Bank of Canada's own 2.8% estimate in the July Monetary Policy Report and should give the BoC some confidence to tighten. We think there are potential upside risks to the Canadian dollar as markets are underestimating the odds of a 25 basis point rate hike at the next meeting. In our view, the July labour market and inflation reports justify Governor Stephen Poloz delivering a second successive rate hike in 2018 (after a rate hike in July). USD/CAD to test the 1.2900 level.