

Emerging markets FX: Waiting on Buenos Aires

A G20 leaders' summit in Argentina could offer clues about future US-China trade relations and an OPEC+ production cut



Source: Niels Mickers

➔ USD: Expect consolidation ahead of Friday's G20 summit in Buenos Aires

FX markets are consolidating after some large moves last week, particularly in the emerging markets space. The recent crash in oil prices and softening in US rates has helped many in the EM world. All eyes are therefore on the weekend G20 leaders' summit in Buenos Aires, which starts on Friday and concludes Saturday afternoon. Two key issues will be in focus: i) do Presidents Trump and Xi show any reconciliation on the trade dispute and ii) do Saudi and Russian leaders manage to agree on an oil supply cut ahead of a big OPEC meeting on 6 December? On the latter, our commodities team feels that OPEC+ needs to deliver a 1.5mn barrel per day product cut to prevent Brent being a \$55/bl story through 1Q19. Obviously, we'll know a lot more this time next week, but ahead of the weekend events, the US calendar looks slightly positive for US rates and the dollar. Here we'll see consumer confidence (Tuesday), a possible upward revision to 3Q18 GDP (Wednesday) and FOMC minutes and October PCE inflation (Thursday). The dollar has held up very well against the low yielders despite this softening in US rates (favouring short EUR, long high yield

FX trades) and we expect more consolidation into weekend event risk in Argentina. DXY to trade a 96.40/97.20 range.

⬆️ EUR: Does Italy have some wiggle room on the budget after all?

The euro is getting a modest lift on comments from Italy's Deputy Prime Minister Matteo Salvini that some fine-tuning of the 2019 budget may be possible after all. The base case for the market (and us) had been that Italy had no incentives to compromise on its 2019 2.4% planned budget deficit ahead of European Parliamentary elections next May. Before the euro gets too excited, however, today should also show a softening German Ifo – a reminder that the open economy of Germany has been badly affected by the trade war (and perhaps Brexit too). On the issue of eurozone growth, look out for a speech from ECB President Mario Draghi to the European Parliament at 15:00CET. [Minutes of the last ECB meeting](#) suggested some doubts emerging about the 2019 growth picture and if Draghi were to shed light on this issue, the euro could underperform. This EUR/USD rally may stall at 1.1400/30.

⬇️ GBP: May takes Brexit to the people

After securing the withdrawal deal with EU leaders yesterday, it now looks like UK Prime Minister Theresa May is taking her deal to the people. Having written [an open letter](#), there's now talk of a TV debate with Labour leader Jeremy Corbyn, trying to curry favour with the electorate and win over more MPs before the crucial vote in parliament probably on 12 December. This is going to be an exceptionally noisy period for the pound. With 1m traded volatility now at 14%, uncertainty makes GBP unplayable.

➡️ RUB: Watching the situation in Ukraine

Tension between Russia and Ukraine has flared up in the Sea of Azov, with Russia seizing three Ukrainian boats. Let's hope this de-escalates quickly.

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