EUR: Club Med in focus

This week's break in EUR/USD below 1.1200 has largely been a dollar story. But the focus could soon shift to France, Spain and Italy

USD: Growth divergence and high hedging costs favour the dollar

The dollar is so far holding onto this week's bullish breakout and today's US data should allow those gains to be maintained. Despite 1Q typically proving the weakest of the year for US growth our team sees the case for a 2.5% quarter-on-quarter annualised figure today, buoyed by consumption and net exports. Inventories could prove a drag, but if we're right the release could go some way to reining in the 20 basis points of Fed easing priced into the Dec 19 Fed Funds contract. However, as we highlight in a note published yesterday, investors are starting to sink their teeth into secular stagnation stories and it will probably take quite a lot (particularly clearer growth stories in Europe and Asia) to rekindle a global growth story. Until stronger evidence emerges that the Federal Reserve is ready to ease, prohibitively high dollar hedging costs should keep USD supported. DXY to 98.80.

EUR: France, Italy and Spain in focus

This week's break in EUR/USD below 1.1200 has largely been a dollar story. Over the next few days, however, the focus could return to Europe by way of: i) Spanish elections on Sunday, ii) S&P's review of Italian sovereign ratings after the close today and c) a review of Macron's 'Act II' promise of tax cuts and reforms to address challenges in France. None of these promise to deliver a knockout blow to the euro (and French reforms could help if it sparks a broader debate over the use of fiscal stimulus in Europe), but unless EUR/USD manages to close the week above 1.12, the technical view favours 1.1110/30 and then 1.10

GBP: Scottish Independence back in the headlines

Sterling has had a relatively quiet week by recent standards. One of the inevitable fallouts from Brexit is the re-opening of the debate over Scottish independence, which will be featured heavily in this weekend's SNP spring conference. Whilst it sounds like a referendum won't be seen before 2021 (if at all), renewed debate about the choice of currency for an independent Scotland will rekindle some of the uncertainty seen before the September 2014 referendum. Cable risks 1.2800 in the current strong dollar environment.

RUB: CBR could turn more dovish today

The Central bank of Russia meets today and our team believes there is chance the bank turn a little more dovish in response to the stronger rouble and the better inflation trajectory. It looks far too early for a cut today and our base case is still a cut in 4Q19, but the CBR could spell out a path to earlier easing –especially were the freeze in gasoline prices extended beyond 1 July. Given the mood in financial markets this week and the pressure felt by emerging market currencies in particular, we're a little worried that a dovish CBR might prove negative for the rouble. USD/RUB risks 65.15/40 if the CBR misreads the mood of the market.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Disclaimer