

## EUR: 'Dropping like crazy'

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## 📈 USD: Is the dollar the only game in town?

The dollar heads into a new month at the highest level in two years. Despite the Federal Reserve having delivered a rate cut, this hasn't been enough to compensate for the very poor activity outlook overseas – which has largely been a function of the trade war. Here, the latest round of US and Chinese tariffs went into effect yesterday and assuming that neither side gives ground over coming months, another round of tariffs goes into effect on 15 December. This comes at a time when investors remain very pessimistic on growth trends (US 2-10 year curve remains inverted) and overseas developments remain concerning. Over the weekend, Argentina had to resort to the kind of capital controls last seen in 2001 while in Europe, politics in the UK and perhaps Italy as well are coming to a boiling point. Barring a surprise improvement in the trade climate, the only way this dollar trend is going to turn is if the Fed somehow cuts more aggressively than market expectations. This is a tall order given the 80 basis points of easing already priced over the next six

months, but any sharp slowdown either in US August Manufacturing ISM data (released tomorrow) or Friday's nonfarm payrolls might prompt the Fed to reconsider easing merely being a 'mid cycle adjustment'. Unless that materialises though, the balance of risks favour the dollar staying supported and DXY pushing on towards the 100 level.

## ↓ EUR: 'Dropping like crazy'

EUR/USD fell through 1.10 on Friday, prompting President Trump to describe the euro as 'dropping like crazy'. His focus, however, is still on the need for massive easing from the Fed, rather than the suggestion of FX intervention to weaken the dollar. Given a very weak eurozone growth outlook, Brexit event risk reaching a crescendo and Italy seemingly priced to perfection (despite a very fragile political scene), it's hard to see the EUR/USD trend turning soon. 1.0820/40 looks the bias this week – the top of a gap left in the charts back in April 2017.

## ↓ GBP: Steering clear of the pound

Investors will want to steer clear of the pound this week as parliament tries to take control of the agenda by passing legislation that will prevent a no-deal Brexit on 31 October. This will all kick off when parliament returns tomorrow and the opposition seeks an emergency debate. Investors will be very reluctant to buy any GBP dips, however, given a myriad of parliamentary tricks to derail new legislation. Cable can retest the 1.2025 low.

## ↓ Latam: Capital controls return in Argentina

The beleaguered Macri administration has re-introduced capital controls to slow the run on the Argentine peso. This echoes some of the measures seen back in 2001, shortly before Argentina defaulted. Expect pressure here to weigh on Brazil and Mexico, with positioning still warning that USD/MXN trades to 20.50.

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