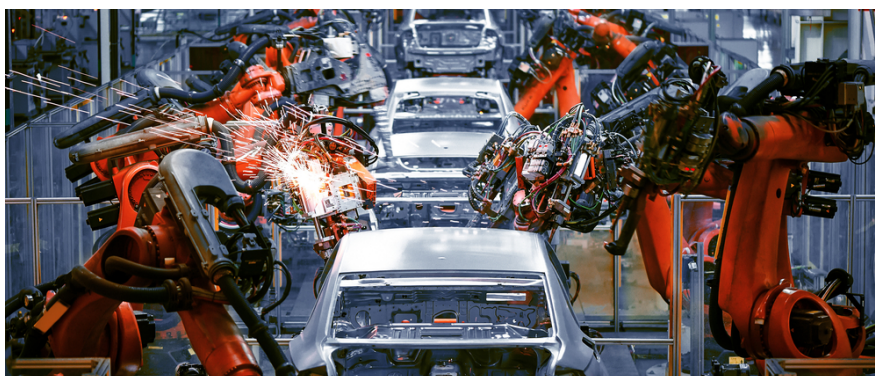


Euro: Facing a wild ride from car tariffs?

As if the euro didn't have enough to worry about with, it also has to contend with the threat of US auto tariffs



Source: Shutterstock

➔ USD: Dollar to consolidate ahead of October inflation tomorrow

The dollar is largely holding onto gains made in thin holiday markets yesterday. Today's highlight will be the October release of the NFIB small business optimism index. While this is second tier data, small businesses are the key marginal employer in the US and assuming the index doesn't fall too far from recent cycle highs, the dollar should consolidate near recent highs. The US October CPI release tomorrow could provide further direction. A pick-up in headline inflation and a core rate above the Fed's 2% target will keep the central bank minded to hike in December. The dollar index to trade 97-98.

⬇ EUR: Auto tariffs back on the agenda?

As if the euro didn't have enough to worry about with: (a) disappointing growth, (b) the Italian budget stand-off and (c) Brexit, it may also have to contend with more discussion about the threat of auto tariffs. Recall the White House launched a Section 232 investigation into the national security threat posed by auto imports in May this year. This issue has been off the market's radar after the European Council's Jean-Claude Juncker gained a reprieve for Europe while the US and the EU were negotiating a free trade agreement. However, reports suggest that the White House's patience on the trade deal is running thin and President Trump is now deliberating over the findings of that 232 investigation. We did not have US tariffs on European auto imports in our baseline euro view, but we are moving into the realm of unfriendly White House tweets on the subject – which could be enough to send EUR/USD under 1.10. For today, look out for what should

be a soft German ZEW, setting the scene for poor 3Q18 GDP data across the region tomorrow. EUR/USD should struggle to get above 1.13 and targets 1.1190.

➔ GBP: UK data might help GBP against the EUR

We see upside risks to UK wage and employment data today, which could provide a little help to GBP on the crosses – especially against the EUR. The Bank of England has been using wages as one of their main guides on inflation and a strong figure could see the GBP money market curve steepen a little. There is a UK cabinet meeting today but expectations of a Brexit deal there are low at this stage. Favour EUR/GBP rallies stalling at 0.8780/8800, before we see sub 0.87.

➔ NOK: Mainland 3Q18 GDP disappoints

This morning's Norway 3Q18 mainland GDP has disappointed at 0.3% quarter-on-quarter, which may raise some uncertainty as to whether Norges Bank hikes again as early as 1Q19. However, EUR travails may mean that EUR/NOK stalls 9.56/60.

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