

EUR: German ZEW to show signs of stabilisation

We expect a small improvement in Germany's April ZEW survey on the back of stronger financial markets and dovish central banks



Shoppers in Lubeck, Germany

➔ USD: Retaining support against G10 low yielders

The higher yielding US dollar (with its interest rate differential vs the average of G10 FX being close to a two decade high) continues to retain support against G10 FX. With tentative signs of improvement in the US-China trade talks and a possible stabilisation in eurozone data this week, we prefer selected emerging market FX vs USD rather than low yielding G10 currencies (such as the euro or Japanese yen) - with the former also offering the tailwind of carry (such as the Mexican peso). For G10 FX low yielders, it is difficult to go against the dollar's meaningful interest rate differential at this point. On the US data front, we and the market are looking for solid March US Industrial Production, further reiterating the case for the market not to price in more meaningful odds of Federal Reserve rate cuts.

⬆ EUR: German ZEW to show further signs of stabilisation

Our economists are looking for another small improvement in German April ZEW on the back of stronger financial markets and central banks' dovishness. This should provide further evidence of stabilising German/ eurozone data and be modestly supportive of the euro, which has been hit by

a stream of disappointing data late last year / early this year. EUR/USD to stay above 1.1300 today. Any more meaningful potential short-term break in EUR/USD higher is more likely to come on Thursday if eurozone PMIs surprise on the upside.

➔ **GBP: Strong wage growth won't translate into BoE hikes or stronger sterling**

UK wage growth looks set to remain strong amid ongoing signs of skill shortages in the jobs market – particularly in areas like construction and hospitality. The February Weekly Earnings ex. Bonus reading should rise by a solid 3.4%, while the unemployment rate should remain at 3.9%. The effect on sterling should be limited as the Bank of England is set to stay on hold. A short extension of Article 50 limits the scope for any tightening. EUR/GBP to remain above 0.8600.

⬇ **AUD: The RBA reiterates its dovish bias**

The Australian dollar has been the weakest G10 currency overnight as the Reserve Bank of Australia minutes further underscored its easing bias (the committee discussed the circumstances for potential cuts). The market is already pricing in 40 basis points of cuts within one year (and the first full cut within six months), meaning that unless the RBA delivers an imminent frontloaded cut (unlikely in our view), the room for AUD to weaken from a monetary policy channel should be somewhat limited over the near-term. Should we see a rebound in eurozone data this week, in turn translating into a supportive risk environment, AUD/USD should stay above 0.7100 this week.