

EUR: Getting cheaper

A sharp slowdown in eurozone activity data and political discord between France and Italy (plus Brexit) continue to weigh on the euro. Any news about US tariffs on auto imports this week could send the currency under 1.10 against the dollar



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⬆️ USD: Dollar back in vogue

After a pro-risk start to the year which has seen investors put money to work outside of the US, a more cautious mood has developed. The sharp slowing in eurozone activity as evidenced by German and European data last week is weighing broadly on European currencies, but as yet there are no material signs of a US slowdown. Data out of the US this week includes small business optimism and retail sales, plus January CPI readings. It may be too early for the CPI story to re-kindle fears of Fed tightening, but over coming months our team does look for core CPI to move towards 2.5% year-on-year and the Federal Reserve to consider a rate hike this summer. That should keep the dollar supported against the low yielders in 1H19. One big event risk, however, and one that we highlight in our new edition of [FX talking](#), is the threat of US tariffs in the auto sector. It's not a base case, but there's a chance that this week the US Commerce Department publishes its findings on whether auto imports pose a national security threat - it is due to report back to the President by 17 February. If so, activity currencies would come under a lot of pressure (especially Europe) and the dollar would rally. DXY looks supported for the time being, targeting 97.00.

⬇ EUR: Political and economic discord

Disappointing growth and political discord between France and Italy (+ Brexit) does not make Europe a very attractive destination right now. EUR/USD looks set to press a range of support in the 1.1270/1300 area and we probably need to hear something like fresh fiscal stimulus from Germany to turn this bearish sentiment. Any news on proposed US auto tariffs could send EUR/USD under 1.10.

⬇ GBP: Clock keeps ticking

We see downside risks to the 0.3% quarter-on-quarter consensus for today's 4Q18 UK GDP data, adding to the local gloom. Thursday is the political highlight of the week, where fresh amendment votes could be heard, although Prime Minister Theresa May could again delay this opportunity to run the clock down further. Cable risks 1.2820/30.

➡ NOK: Softer CPI unlikely to derail the NB rate hike in March

EUR/NOK today broke above the 9.800 level in response to the weaker than expected Norway January underlying CPI (2.1% YoY vs 2.3%). Still with the inflation above target, the recent economic data being solid and the Norwegian krone trading on the soft side versus Norges Bank's own forecast, we don't expect today's number to derail the central bank from hiking interest rates at the March meeting (a hike currently signalled under its forward guidance). The krone should continue outperforming the Swedish krona, with the cross converging to the 1.10 level.

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