

## Riga Rally

Expectations are high that the ECB will have something concrete to say today about the end of quantitative easing. Here's what that could mean for the euro



Source: Andrej Klizan

### EUR: Let's see how far the euro can rally in Riga

Expectations are high that the ECB will have something concrete to say today about the end of its QE scheme. As our team highlights in our [ECB Crib Sheet](#), our baseline view expects QE to be cut from €30 billion to €10 billion per month for the final quarter of the year, but no firm end-date to be provided. We feel that could be worth EUR/USD move to 1.1850 and perhaps 1.1900, but the headwinds from trade wars and firm short-term US rates suggests EUR/USD will struggle to rally more than that. Elsewhere, look out for Swedish CPI today. The headline rate could push up above 2%, but we're not fans of chasing SEK strength given protectionist fears and local challenges. EUR/SEK supported near 10.10.

### USD: Hawkish hike spells trouble for the future

The Federal Reserve delivered a hawkish 25 basis point hike last night and shifted its FOMC statement to reflect that rates could be moving to a tight setting in 2020 – if the dot plot is to be believed. This has triggered a very modest flattening in the US yield curve, where 2-3-year rates are some 2bp higher, while the 10-30-year sector of the curve is 2bp lower. Typically a flat or

inverted curve is positive for a currency (making it more difficult for bond investors to roll three-month FX hedges), although in this case, we suspect the Trump risk premium is limiting dollar strength. Prompted by a Trump interview with Fox news, speculation is building that Trump's commerce team on Friday will provide clarification on the tariffs it plans to impose on \$50 billion worth of Chinese imports. That probably explains the reversal in USD/JPY from 110.85 yesterday and we certainly see downside risks to USD/JPY and equities in the current environment. With the European Central Bank expected to help the euro today, the US dollar index looks biased to the 92.80 area.

## GBP: Upside risks to EUR/GBP, despite potentially good US retail sales

Warm weather in May could see UK retail sales come in strong today. However, we'd prefer to back to the euro on the ECB story and see EUR/GBP above 0.8840.

## CNY: Confusing signals

It is a little surprising to see USD/CNY lower at a time when the PBOC hasn't followed the Fed with its customary 5bp rate hike, although as Iris Pang [outlines](#) the PBOC probably feels that domestic liquidity conditions are tight enough already. How the PBOC handles the renminbi if the US-China trade war escalates, as seems likely, remains to be seen. A difficult environment for equities and tight US interest rates probably suggest upside risks to USD/CNY at present - although officials may want to keep the renminbi out of the trade debate at the moment. That said, high USD rates are keeping one-year CNH forward points relatively low (inside of 1000). Ahead of what could be a rocky road for emerging markets, it may be a good time to hedge CNH exposure.

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