EUR: That sinking feeling

We think there are upside risks to the flash eurozone CPI reading for October. That would support ECB Mario Draghi's confidence in the price trajectory into next year but higher oil prices are eating into spending and pressuring growth forecasts

EUR: Rising inflation may not be such a boon

Flash eurozone October CPI is the highlight in Europe. We see upside risks to the headline consensus of 2.2% year-on-year based on the national releases yesterday, but core (expected at 1.1% versus 0.9% prior) will be more important. While higher inflation may support ECB Mario Draghi's confidence in the price trajectory into 2019, higher oil prices will be eating into eurozone consumption and pressuring growth forecasts. European politics (Brexit, Italy and now Germany) hang like a dark cloud over the euro right now. We're worried EUR/USD breaks down to 1.11/12.

USD: Dollar to stay bid into Friday's US wage data

The trade-weighted dollar continues to push to new highs for the year buoyed by the still constructive US growth/monetary policy story and also clearer signs of a slowdown overseas. Eurozone 3Q18 GDP figures were disappointing and there was further evidence of a Chinese slowdown in October PMI readings. It just seems a matter of time before USD/CNY pushes above 7.00, which we think could trigger another leg of strength for the dollar against emerging markets.

For today, US ADP jobs data is the highlight but will be buffeted by the effects of hurricanes in September and October. Of course, President Trump could tweet his displeasure at dollar strength at any time – but the macro/monetary story should keep USD bid.

JPY: BoJ policy is going nowhere fast

The Bank of Japan unsurprisingly made no major changes to its policy guidance last night and modestly cut growth and CPI forecasts into 2020. USD/JPY is a clean benchmark of President Trump's fiscal/monetary mix and for the time being investors are prepared to back the pro-growth story. US data this week, particularly US wages on Friday, should support the Federal Reserve tightening story, leading to a flatter US yield curve and modest gains for USD/JPY. The biggest challenge to this narrative will come from the US mid-terms on 6 November. USD/JPY to drift to 114.00/50.

BRL: Outperformance to continue

Brazil's central bank BACEN announces its SELIC interest rate tonight and is widely expected to keep rates at 6.50% - where they have been since March. Since the last meeting, BACEN has seen Jair Bolsonaro confirmed as president and USD/BRL turn lower from 4.20 to 3.65. It may be a little too early to withdraw some of the hawkish threats made at the last meeting, but our Chief Latam economist, Gustavo Rangel, believes that over time the market may dial back on the 350 basis points of tightening priced in by 2020. With the fiscal position showing signs of improvement and the current account deficit a mere 1% of GDP, we'd say that the Brazilian real over coming months can weather the external environment better than other high yielders. Any early victories for Bolsonaro in Congress to see USD/BRL to 3.50.

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