EUR: They thought it was all over...

Reports that some ECB officials think a rate hike could come before December 2019, as well as news that Brussels may push for a universal cut to global auto tariffs, could provide some superficial reprieve for the euro.

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EUR: Bulls revived by hawkish ECB reports but we need proof

It may not be all over for euro bulls just yet. Reports that some ECB officials see the market pricing of a December 2019 rate hike as being “too late” – as well as news that Brussels may push for a universal cut to global auto tariffs in an attempt to avoid an all-out trade war with the US – could provide some superficial reprieve for the euro. Both factors have been big contributors to the depressed valuation of the single currency in recent months – and signs that these headwinds may be starting to fade could help to reshape the balance of risks surrounding the euro's longer-term outlook. But that may be all that we see – with there likely to be limited follow-through in terms of positive euro price action in the near-term. In a world of Trumpian uncertainties, we believe ‘hard facts’ remain an investor's true guide and accordingly one should continue to focus on incoming eurozone data as the primary determinant for the euro (see our note EUR: It's all about the growth for why we think this is the case). In fact, eurozone data will not only dictate what the ECB's normalisation path will ultimately look like – but also to what degree the spectre of a global trade war could permanently dent the nascent ‘animal spirits' that had supported eurozone growth prospects in 2H17. A sustained move above 1.17 would be a small win for EUR bulls.

USD: Combo of higher US rates and higher oil prices could be fading
One would have thought that a significant US holiday would have given most of us a bit of breathing space from monitoring our Twitter feeds. But that proved to be wishful thinking – with the president once again taking to Twitter to call out OPEC for too high oil prices. A lid on oil prices – coupled with a less hawkish Federal Reserve (note we have an important set of minutes overnight) – could be just what the doctor ordered for emerging markets FX. Any reprieve in risk sentiment would weigh on the US dollar.

GBP: Nervous times as Brexit heads into extra time

Brexit talks are heading into extra time – and unfortunately there won’t be any penalty shootout to save the pound if Prime Minister Theresa May is unable to find a last-minute winner this time around. We’ve previously characterised the PM’s predicament as an ‘impossible Brexit trinity’ – that is trying to achieve three simultaneous objectives: (1) appease Brexiteer MPs within her own party; (2) find a solution that a majority of MPs in the House of Commons would back; and (3) find an outcome that is politically suitable for all EU members to accept. When push comes to shove, we think the PM will only be able to choose two of these three objectives – and the broader trajectory for GBP will be a function of her choice. A continued ‘muddling through’ scenario is consistent with GBP/USD trading around current levels into year-end. But if May does steer towards a ‘soft’ Brexit – one that keeps the UK in the goods single market and mirrors the current customs union setup – then we could see a chunky move higher in GBP given that the Bank of England is in tightening mode. In our view, this benign scenario sees GBP/USD at 1.43 by year-end. We still dare to dream here.

MYR: Downward revision to ringgit forecasts

‘It ain’t looking pretty’ is how we’ve been describing the outlook for emerging market currencies this summer – and Asia, in particular, looks vulnerable to a US-China trade war. Our team notes that this clouds the outlook for Malaysia – and we have revised our USD/MYR forecast for end-2018 to 4.35 (from 4.05 prior).