

Fed and USD: Sell the rumour, sell the fact

It's a big day for financial markets today and our team expect a 75bp adjustment lower in the median Fed Funds projection - from one hike to two cuts, which we think will be bearish for the dollar particularly against activity currencies



⬇ USD: One way or another, we suspect the dollar will drop

Today's Federal Reserve meeting takes place amidst much speculation over the need for easier policy, where the market now prices just over 90bp of Fed rate cuts by the end of 2020 and attaches an 84% chance to the 31 July FOMC meeting being the start date for the easing cycle.

Somewhat surprisingly we find that when it comes to easier monetary policy, a downward adjustment in the Fed dot plots has [delivered a weaker dollar on seven of the eight instances](#) since projection materials were first released in 2012. Our team expect a 75bp adjustment lower in the

end 2020 median Fed Funds projection (from one hike to two cuts), which we think will be bearish for the dollar particularly against the activity currencies, which are also now supported by news that Presidents Trump and Xi will meet next week) We doubt the political environment will allow the Fed to resist market pressure for easier policy, but even if it did US equities would fall sharply and instead favour a decline in USD/JPY. This is all coming at a time when fund managers believe the dollar is the most over-valued since 2002 and the White House sounds like it's about to embark on a campaign to talk the dollar lower.

We favour DXY stalling at 97.70 and reversing under 97.00 on the FOMC.

(The Fed will release its policy statement and quarterly projections at 2000CET, followed by a press conference from Fed Chair Powell at 2030 CET)

➔ EUR: Markets are convinced the ECB will cut

Following a dovish set of comments from Draghi at Sintra yesterday, the market now prices a 10bp ECB cut at the 12 Sep meeting. Lower rates and the prospect of renewed QE will keep the EUR as an under-performer (either versus high yield or versus JPY and CHF, depending on the risk environment). Today, however, the Fed story should keep EUR/\$ afloat in a 1.1180-1.1250 range.

➔ GBP: EUR/GBP held in check by ECB easing

EUR/GBP to consolidate 0.8870-0.8930 as market digests ECB easing prospects.

➔ BRL: Too early to look for major dovish shift from central bank

Brazil's central bank meets today to set interest rates amidst much speculation over a continuation of the easing cycle – suspended since March 18. Our Chief Latam economist, Gustavo Rangel, believes it's too early to expect a major dovish shift, who will prefer instead to wait for some progress on social security reform and a soft June inflation print before turning more dovish at the July 31st meeting.

We doubt the central bank failing to give bond investors what they want will hurt the BRL too much today, however, a dovish Fed and stronger commodity prices on the back of a glimmer of hope over easing trade tensions should limit USD/BRL top-side well before the 3.90/94 area. Investors will instead be looking to sell any USD rallies for a sizable move to 3.30/40 in 3Q19.

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