

FX: All that's missing is growth

A more benign environment allows for a little more risk-taking as far as the dollar's concerned. Here's Tuesday's FX Outlook



➔ USD: Quiet before the Fed and jobs' storm

It's a quiet day on the events calendar ahead of tomorrow's FOMC meeting and Friday's NFP. Risk assets are gently bid as investors focus on: (i) a temporary truce in the US-China trade war and (ii) a conviction that the Fed cuts for the third time in a row. We're also interested in a story that the Fed is proposing easier margin rules for internal derivatives trades, potentially rowing back on some post GFC regulation.

Elsewhere, emerging markets are enjoying somewhat of a renaissance – or at least their bond markets are – as sharply lower inflation allows aggressive easing cycles – Brazil is expected to cut another 50bp tomorrow. EM local currency bond indices are now up over 7% YTD and could attract more cash into year-end as asset managers search for yield. All that's missing to complete a more positive picture are signs that stimulus is being converted into better confidence and activity. That shoe is yet to drop. For the near-term, we suspect that the dollar stays gently offered against EM (today's lower USD/CNY fixing helps here), while \$/Europe remains mixed. Indeed, there is increasing evidence that the EUR is becoming one of the preferred funding currencies. DXY could

edge to 98.00/10 if EUR & JPY stay soft.

➔ EUR: Struggling to make headway

A better EM environment would typically provide some support to the EUR – but that hasn't really been the case. The ECB money-printing exercise has had little impact on local confidence so far and investors will be worried where the next shot of stimulus will come from – should it be required. Investors also seem to be happy to borrow in Euros as evidenced by recent BIS data, showing that cross-border borrowing in Euros is growing at twice the rate of borrowing in dollars. EUR/USD could stay trapped in a 1.1030-1.1110 trading range today.

➔ GBP: Think of the students

Attention does not stray far from the House of Commons today as the Johnson government continues to pursue a Dec 12th election date. A 'one-line bill' will be tried today and there could be some success here – although Dec 9th now looks a more likely date to accommodate the student support base of the Lib Dems and the SNP. It's not clear how GBP will react to news of an election on December 9th, although what we can say is that [GBP positioning](#) looks better balanced & there does not seem the need for Cable to strongly press 1.30 now

ZAR: Supported into a big week for event risk

The ZAR typically has one of the largest positive correlations with CNY and thus may receive some short term support from the stronger Renminbi. However, South Africa's budget (more news of Eskom) tomorrow and Moody's rating action on Friday will keep enthusiasm in check. \$/ZAR to press 14.50 support.

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