

FX: All will be revealed

A flurry of GDP data, a Federal Reserve meeting and another crucial vote on Brexit will make for a busy week



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➔ USD: The end of the shutdown could see delayed US data released

We might see some indications on the true state of the US economy this week, now that the US government shutdown has (temporarily?) ended. In addition to the release of the January nonfarm payrolls data this Friday, we could see the delayed releases of Trade (November), Home Sales (November) and Retail Sales (December) as well as the 4Q18 GDP release on Wednesday. It's probably too early for the Federal Reserve to be reading too much into this data, but Wednesday's FOMC meeting should support the view that the Fed is gradually shifting away from forward guidance and into a data-dependent approach to monetary policy. The market is already pricing this in (no hikes this year and a cut next year) and if delivered should maintain the cautiously friendly environment for risk assets which has characterised January so far. The market will also be focusing on US-China trade talks which take place in Washington on Wednesday/Thursday. Unless there is a breakdown in negotiations, we suspect the cautiously risk-positive environment can continue – which should favour higher-yielding undervalued emerging markets against the dollar. For DXY, we still think it's a little early to be calling a significant sell-off and instead prefer Japanese yen-funded carry trades. DXY to trade in a 95.50-96.50 range.

⬆️ EUR: Resilient performance

The euro is holding its own against the dollar even though the eurozone macro and monetary outlook remains subdued. This week should see soft 4Q18 GDP data across the region and another subdued set of inflation data – including the flash January eurozone CPI data on Friday. Looking at ETF flows, there still seems little indication of investors increasing under-weight positions in eurozone equity markets just yet – but any upside surprises could drag EUR/USD back to the 1.1500 area. The Brexit story may also provide some support to European currencies this week – see below.

⬆️ GBP: Enough ‘optimism’ to keep GBP supported

Tuesday is shaping up to be a huge day for sterling, where Prime Minister Theresa May will re-submit her Withdrawal agreement (likely rejected) after which parliament gets to vote on the Cooper amendment – which could lay out a path for a Brexit delay until year-end. There's enough here to keep the pound supported for the time being and for Cable to push to the 1.3260/3300 area.

⬆️ RUB: Sanctions relief?

On Sunday the US Treasury lifted sanctions on three firms linked to Russian oligarch Oleg Deripaska. While the move probably related to the disruption to the global aluminium/alumina markets, headlines of sanctions being lifted on Russian entities may keep the rouble supported near the 65.50/USD area.

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