

FX: America First, Dollar Last... again

President Trump's first State of the Union address was, in truth, a bit of a damp squib for markets



US Capitol

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USD: Global markets breathe a sigh of relief from a stable and boring Trump

President Trump's first State of the Union address was, in truth, a bit of a damp squib relative to the Tweeter-in-chief's usual mercurial self. Global markets may be able to breathe a sigh of relief given the President's lack of focus on trade or protectionist policies – though one wouldn't need to look beyond the narrative around foreign or immigration policies to note that nothing has in fact changed in regards to the administration's 'America First' ideology. Noise around this will likely pick-up as President Trump looks to appeal to his core voter base ahead of the November midterm elections – meaning that global markets won't be able to rest easy just yet. Elsewhere, investors may 'look through' Trump's intent for a \$1.5 billion infrastructure bill – one of the few policy proposals made during the speech – given (a) the lack of bipartisan support and (b) doubts over funding the bill. All of this suggests the weak dollar dynamics are still very much in play.

In the immediate future, markets will turn their attention to the FOMC meeting today – which will be Chair Janet Yellen's last at the helm. Despite the growing market sentiment around a March

rate hike, it's difficult to see how the statement can in fact hawkishly deviate from the Fed's typical gradual normalisation message. We see risks of a market disappointment – which could see short-term US rates moving lower. While good for global risk, the US dollar may find little love here.

EUR: Real EZ economy may be able to withstand a stronger currency in 2018

While the strong 2017 Eurozone GDP print dominated the headlines yesterday, one of the most important – and potentially understated – releases for our EUR outlook was the latest quarterly business survey. In particular, euro area firms hadn't noted any marked change in their competitive position since October despite expectations for – and more lately materialisation of – an appreciation in EUR/USD. So long as the global growth and inflation story holds, we think the negative effects of a stronger currency on the EZ economy may remain somewhat passive. This also suggests that the ECB's tolerance level for a strong euro may be higher than we had envisaged. For today, watch out for surprises in the Jan EZ inflation data; the evolution of underlying price dynamics holds the key to the ECB's next steps and we'll be looking for whether core CPI regains a 1% handle.

GBP: Carney offers sterling bulls a glimmer of hope ahead of Feb BoE meeting

Governor Carney did not divulge much at his testimony to the House of Lords, though there were a few glimmers of hope for GBP bulls ahead of next week's Super Thursday BoE meeting (Feb 8). The Governor noted that the IMF's latest forecast of 1.5% growth for the UK economy was 'light', potentially signalling upside risks to the central bank's own GDP profile. Moreover, this could alter the low growth and above-target inflation trade-off in a way that allows the BoE to press ahead with another near-term hike. We look for the MPC to retain a fairly neutral stance next week, though a hawkish tilt may give GBP a knee-jerk boost.

CAD: Canadian GDP data in focus; AUD: 4Q CPI miss to weigh on AUD/NZD

Today sees the release of Canadian GDP data; a positive surprise may reinforce the current sentiment around a May BoC rate hike (currently a 76% probability is priced in). The 4Q Australian CPI miss reaffirms our view for AUD/NZD to hit 1.06.

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