FX: Caution prevails

Despite signs of stabilisation in equity markets, sentiment could be quickly be undermined

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USD: Renewed focus on the Fed this week

Equity markets are showing some signs of stabilisation after market-friendly outcomes in Australian and Indian (final results 23 May) general elections. Also providing some support has been Friday's release of US consumer confidence data for May, which pushed to a new cycle high (and included rising inflation expectations). However, US-China trade tensions remain unresolved and there's also a chance of further supply-driven spikes in oil on the back of Middle East tensions – both of which could quickly undermine sentiment. There's little US activity data this week and instead the market will be focusing on the Federal Reserve, where the minutes of the 1 May FOMC meeting are released on Wednesday. It may be too early to expect a dovish shift here, even though there's lots of focus on new Fed strategies such as average inflation targeting. Until there's a decisive dovish turn from the Fed, expect the dollar to still play a role in the current demand for safe havens – especially as Europe remains pre-occupied with politics this week. DXY looks set to challenge the year's high at 98.33.

EUR: Politics and confidence indices to dominate

European elections on Thursday should dominate the euro this week, with the focus on whether the populists take charge. Does Matteo Salvini's Northern League do so well that he's tempted to break away from Italy's coalition government or does Marine Le Pen undermine the chances of Emmanuel Macron's reforms? This comes at a time of stuttering European growth and falling inflation expectations. Even a bounce in the German IFO/eurozone PMIs (on Thursday) may be insufficient to alter the mood – until global trade tensions settle. EUR/USD sinking to 1.1115/35 seems the path of least resistance, also leaving CE4 FX vulnerable.

GBP: Left out in the cold

There's little prospect of Prime Minister Theresa May's deal being approved in early June, a Tory leadership battle and slow European growth leave sterling out in the cold. Cable to 1.2660/70.

RUB: Poor 1Q19 GDP growth could trigger earlier easing

Friday's release of 1Q19 Russia GDP was a disappointing 0.5% year-on-year. Our Russian Chief Economist Dmitry Dolgin believes that the poor growth was not entirely down to January's VAT hike but also to low capex from the state sector. While we think that a budgetary response is required here, there's also a chance that the central bank sounds a little more dovish this week, raising expectations of a rate cut as early as the June meeting. There's already been strong foreign demand for Russian OFZs this year, but breaking 8% on the 10-year yield may be difficult. Our preference remains that current rouble strength proves short-lived and USD/RUB ends the quarter closer to 66 than 64.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com