FX Daily: Brazil shakes off Trump's tariffs

The Brazilian *real* has brushed off President Trump's reimposition of steel tariffs, partly because steel is not a key export for Brazil. Trump blamed the move on the depreciation of the *real,* "which is not good for our farmers,' but was there another reason?

USD: Underperforming the cyclical currencies

Despite the US (a) re-imposing tariffs on Argentina and Brazil steel exports; and (b) threatening tariffs on French goods, cyclical and higher beta G10 currencies are not under pressure, with the soft US data (November US Manufacturing ISM) weakening the dollar and offsetting the negative risk factor. As per our 2020 FX Outlook, in the G10 FX space we favour cyclical currencies where carry and (stabilising) growth should benefit local FX. The Australian dollar has been the top performer overnight following the on-hold decision by the Reserve Bank of Australia and its more constructive rhetoric (with the bank stating that some global risks have dissipated). While yesterday's US data translated into broader dollar weakness, we see limited USD downside against the euro and Japanese yen as local stories are not appealing either (while one full Federal Reserve rate cut is already priced in for 2020).

EUR: Limited upside form here

We see limited upside to EUR/USD from here, with the cross struggling to break the 1.1100 resistance level today as (a) there are no meaningful data points today; (b) US data in the remainder of the week should be solid. The rise in EUR/USD has boosted the oversold Polish zloty and the Hungarian forint. Our view of (a) limited upside to EUR/USD in the weeks and months to come; and (b) few domestic reasons to turn bullish on PLN and HUF (FX mortgage story in the case of the former, the loose monetary policy set-up and deteriorating current account position in the case of the latter) suggest that both currencies' gains are unlikely to have legs.

GBP: Staying in a range ahead of the elections

EUR/GBP remains tightly range-bound and the GBP/USD cross is primarily driven by the moves in EUR/USD. As we've said, we see limited upside to EUR/USD from here and coupled with our view that EUR/GBP 0.8500 forms a very strong support level, the GBP/USD upside seems limited from here (ahead of December UK elections).

BRL: Shaking off Trump's tariffs

The Brazilian *real* shook off news from President Trump that he was re-imposing steel tariffs on Brazil and Argentina. Gustavo Rangel notes that steel is not a key export for Brazil and the move may perhaps have been linked to improved relations between Brazil and China – or more explicitly Brazilian exporters, rather than those in the US, meeting Chinese soybean needs. Intriguingly the rationale for these US tariffs was the 'massive devaluation' of their (BRL and ARS) currencies, 'which is not good for our farmers'. Brazilian authorities have far more firepower to support the BRL than those in Argentina and now that the weak BRL has hit Washington's radar, the 4.25 area may start to develop into some kind of line in the sand for USD/BRL.

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