

FX: Heavy positioning amid tax and oil concerns

Investors are closely monitoring two global risks



USD: Focus on whether tax bill makes it out of the Senate Committee

Investors look heavily positioned in growth/recovery stories, be they positions in equities, oil or increasingly European assets. As we saw in the ZAR yesterday, positioning can sometimes exaggerate corrections, thus investors will be carefully monitoring two key global risks this week. They are:

- a) whether the Senate can make progress on the US tax bill this week and
- b) whether OPEC on Thursday will extend supply cuts until end 2018.

On the former, the tax bill is expected to be passed by the Senate Budget Committee today. Any Republican hold-outs, delaying the bill, could see risk assets under-perform after a great run. Elsewhere Fed Chair nominee Jerome Powell testifies at his confirmation hearing at 1545CET today. He's already released a prepared statement ahead of the testimony, which adds to the view of a continuity candidate at the Fed. We tend to think DXY might have put in a low for the week yesterday at 92.50.

EUR: Top of the range

EUR/USD turned from a high at 1.1960 yesterday and there is not a clear story for an immediate break above 1.2000. Bullish news of a grand coalition in Germany (especially with the SPD set to make more pro EU demands) may take time to build, with agreement potentially not being reached until January. Any upside surprise in eurozone inflation data on Thursday maybe the best chance of any further EUR strength and if US tax reform stalls, we could imagine EUR/JPY selling off rather than EUR/USD pushing above 1.20. Slight bias to 1.1800 today.

GBP: Another increase in the capital buffer

A press release for the Bank of England Financial Stability Report has just hit the wires and apart from the expected concerns over Brexit and the UK's large current account deficit is the news that banks' counter-cyclical capital buffers could be reviewed again early next year. This buffer is already being increased by 0.5% to 1.0% next November and the BoE seems to be threatening to raise it again depending on the 'overall risk environment'. Tighter regulatory conditions could detract from future tightening prospects and be slightly GBP negative. We're less bearish on the USD short term, meaning that Cable could correct to 1.3240.

KRW: Focus on Thursday's Bank of Korea meeting

USD/KRW is holding near 1,085 support and, barring a fresh missile test from North Korea, looks set to continue pressing the downside ahead of a potential first hike in the BoK cycle on Thursday. Our team think it's a little early for a hike, but nonetheless signals that Asia is moving from crisis to tightening-for-the-right-reason mode looks a medium term positive for Asian FX in general.

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