

FX: High bar for sustained US dollar rally

Even if the Fed signals four rate hikes at its policy meeting later, the dollar is unlikely to embark on a sustained rally



Source: Shutterstock

USD: High bar for the dollar to embark on a sustained rally

The key focus of the day is on the FOMC meeting ([see FOMC Preview](#)). With a rate hike looking a done deal (i.e. fully priced in by the market), much of the focus will be on the Fed's so-called "dot diagram". To secure an upgrade of a median view to four rate hikes this year in the Dot Plots, four to five Fed members will have to upgrade their view. Even if that happens, it might only be worth a 5-10bp rise in short-dated US dollar rates and only marginally support the dollar. Note that the market has already priced in between 80-90bp worth of Fed hikes by the end of 2018, hence a signal of four hikes (which the market may still not price in with a full certainty even if such a signal is delivered) is unlikely to materially alter the US dollar's prospects where the overhangs of the twin-deficit and the US political risk premium have been offsetting the more hawkish Fed mode.

EUR: Downside to fade

Even if the Fed upgrades the dot diagram and shows a median of four hikes this year, we don't expect downside to EUR/USD to be material and long-lasting. This is because the cross decoupled from the short-term rate spread while the scope for a meaningful re-pricing of the Fed is limited

(as plenty is priced in for the Fed already). In contrast, the upcoming ECB policy normalisation (the end of QE, expectations of depo rate hikes) is still not fully exhausted and should drive EUR higher this year.

GBP: Focus to shift back to UK economic fundamentals

[As we noted yesterday](#), we look for the pound's focus to shift back to UK economic fundamentals. A Brexit transition deal is one element of sterling's bullish trifecta this week; if all the cards fall perfectly into place – and we also see a status quo hawkish Bank of England policy message and constructive UK wage inflation data today – then we wouldn't rule out a further move up in GBP/USD towards the year-to-date highs around 1.4250-1.4300. With markets looking for headline wage growth at 2.6% YoY – any positive surprise would vindicate the Bank's inflation-driven tightening bias.

RUB: Retail sales to reaffirm the story of growing domestic demand

Our economists expect Russian February retail sales to reaffirm the story of growing domestic demand, in turn limiting some of the recent USD/RUB rise. That said, the spike in oil prices should be a more supportive factor for the rouble than the retail sales numbers as the latter is unlikely to affect the central bank decision this Friday. We expect USD/RUB to trade around 57.50 today, ahead of the CBR meeting on Friday (where we and the market are looking for 25bp cut).