

FX: Location, location, location

With US-China trade tensions unresolved and the Chinese yuan continuing to trade on the soft side, it's no surprise that emerging market investors are looking to other regions for better returns



➔ USD: Better jobs data cements view that 25bp will be enough

Friday's better than expected US jobs data has cemented the view that a 25 basis point cut will be sufficient insurance from the Federal Reserve at its 31 July meeting. This will have disappointed some in the market looking for a more aggressive move and has served to flatten the US 2-10 year yield curve by close to 15bp over the last fortnight. This leaves risk assets feeling slightly short-changed and open to pockets of vulnerability. Beyond US-China trade, attention has now turned to trade tensions between Japan and Korea, where Japan has imposed restrictions on semiconductor exports to Korea, citing national security concerns - sounds familiar. Korea's Kosdaq is down 3% and it will be worth watching the performance of the US Sox semiconductor index today, in case any US names are caught up in supply chain issues. With US-China trade tension unresolved and the Chinese yuan continuing to trade on the soft side, perhaps it's no surprise that emerging market investors are looking to other regions for better returns – such as Latam. A hawkish Banxico is keeping the Mexican peso supported and it looks like investors are positioning for positive reform in Brazil. Expect the dollar to consolidate further this week, with the next big input coming on Wednesday, when Fed Chair Jay Powell testifies to the House and FOMC minutes are

released. DXY may struggle to get past 97.70 resistance, though.

➔ EUR: New Greek government has had little impact on the EUR

News that the centre right New Democracy party has won the snap general election in Greece has had little impact on the euro. This is a testament to the improvement in perceived Greek risk, where the GGB-Bund spread is now trading 250bp compared to the 1500+ levels when Syriza took office in 2015. Expect the eurozone focus this week to remain on ECB speakers and whether the ECB will feel the need to cut rates as early as July. EUR/USD has now fallen back into familiar ranges, but should find support in the 1.1170/80 area.

⬇ GBP: Little reason to be cheerful

Apart from the possibility of Nigel Farage becoming the UK's next ambassador to the US, there is little fresh news on the Brexit debate. Activity data remains sluggish and our team continues to think that 2Q19 UK GDP could be flat quarter-on-quarter. Cable could well sink to the January flash crash low of 1.2440.

⬇ RUB: We see USD/RUB in a 63-65 range in 3Q19

The rouble has handed back some of its recent gains, perhaps reflecting a slowdown after the feeding frenzy on Russian OFZs. Our team in Moscow prefer USD/RUB trading a [63-65 range through 3Q19 now](#).

Author

Chris Turner

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

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