FX: Mind Games

Some of President Trump's tactics appear to be paying off but a weaker dollar is clearly part of the agenda and we believe investors will be looking to sell into any near-term dollar rallies

Source: Shutterstock

USD: An emboldened president

President Trump must be delighted that his policies are paying off. His bellicose tweets have brought North Korea to the negotiating table and his use of cold war steel tariffs is effectively an invitation for trading partners to make him their best offer in order to secure tariff exemptions. A weaker dollar is clearly part of Trump's protectionist agenda as well and we believe investors will be looking to sell into any near-term dollar rallies. For today, the highlight of the session will be the February nonfarm payrolls/wage data. We're slightly above consensus on wages (2.9% vs. 2.8%) and we're surely not far away from seeing a 3.0% figure – the highest since 2009. Recall the wage data last month was the catalyst for the bond and equity market sell-off, exposing huge cross-correlation between asset markets. Like most analysts, we believe last month's equity correction was exaggerated by short volatility structures and for the near-term see the bond market as most vulnerable to higher wage data. We see the 91.00 area as strong resistance in DXY and would view any short-term recovery on the back of higher US yields as a short-lived bear market rally.

EUR: Draghi master-class

President Mario Draghi delivered another master-class by dropping the QE-easing bias while sending the Euro and Eurozone interest rates lower. The ECB now has exchange rates and protectionism as key uncertainties to hold back the normalisation cycle. Yet EUR/USD strength is this year being driven by dollar weakness – and we doubt that this environment changes anytime soon. We retain the view that EUR/USD is embarking on a multi-year rally and we tend to see 1.2150/2200 as the bottom of the near-term trading range.

JPY: BoJ certainly in no hurry to shift policy bias

The Bank of Japan made no major changes to its easing bias at today's monetary policy meeting and Governor Haruhiko Kuroda has just said he's not thinking of weakening the easing bias before the 2% inflation target is hit. Our bearish USD/JPY view is largely premised on Washington policy rather than early BoJ tightening – so we doubt a re-iteration of the BoJ's dovish stance needs to drive USD/JPY too much higher. The question is whether USD/JPY needs to recover to the 108.00/50 area before breaking to new lows? Today's NFP/wage figures will probably have a large say in that, but at this stage, we feel it is just a matter of time before USD/JPY trades below 105.00

CHF: SNB will retain dovish outlook next week

EUR/CHF has been lifted by geopolitics this week. The Swiss National Bank meets to discuss policy next week. It should be more dovish than the ECB. EUR/CHF to trend to 1.20.

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