

FX: New quarter, new you

Our currency outlook on the first day of the month and it looks as though the US dollar could be supported this week



Source: istock

📈 USD: Domestic demand to keep USD supported this week

The new quarter starts with some optimism. March China PMI has rebounded a little, suggesting [local fiscal stimulus may be bearing fruit](#) and the US-China shuttle diplomacy on trade continues. The data set in the US this week could also be positive, where today we could see a further recovery in retail sales and a stable manufacturing ISM, and the week concluding with a decent NFP jobs report. This should prompt a re-assessment of the still 20bp of easing priced into the Fed Funds strip this year and prove slightly positive for the dollar against its G3 peers. Investors will also keep one eye on developments in emerging markets, where election results in Turkey and Ukraine will be assessed – although there has been some positive news in South Africa where Moody's chose to keep local currency ratings at investment grade and on a stable outlook. DXY to press the year's high at 97.70 if US data delivers.

➡ EUR: Core inflation to dip to 0.9% YoY

Recent German data suggests Eurozone core inflation released today will sink back to the 0.9% YoY area – cementing the low rate environment in Europe. Looking at inflation expectations through the 5Y5Y inflation swap forwards, the ECB (inflation priced at 1.35%) faces much bigger

problems than the Fed (2.2%). We think the EUR is cheap and that the downside will prove sticky – yet unless we see a significant re-assessment of European growth prospects, prompting a re-allocation of portfolio flows to Europe, then it is hard to see a EUR rally either. Favour EUR/USD trading a 1.12-1.13 range this week

➔ GBP: A lot of uncertainty

Cable to continue trading a 1.30-33 range near term, trapped by the positive of the indicative votes versus the negative of the governing Conservative party tearing itself apart and dangerously threatening a general election. Latest GBP scenarios [here](#).

⬇ RUB: Sanctions threat lingers

The Russian rouble sold off late Friday on reports that the US administration was preparing to introduce a second tranche of sanctions in response to last year's chemical poisoning of the Skripals in the UK. These sanctions would be introduced under the Chemical and Biological Weapons Act and could focus more on broader trade links and US bank financing to the Russian government. This sanctions path is a separate one to the [DASKAA](#) bill currently sitting with the Foreign Relations committee in the US Senate and expected to make a re-appearance towards the end of 2Q19. Despite the 8% implied yields available on the RUB and the strong demand shown recently by foreign investors into local OFZ, we think the sanctions threat and the seasonal decline in the current account surplus will make the RUB an under-performer over the next six months. We see USD/RUB trading at the 67 levels into late summer.

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