FX: On the edge amid equity falls

There's a mixed environment for the dollar

USD: S&P 500 sits on the edge of the 200 day m.a.

Travails in US technology stocks have left the S&P 500 index threatening to break its 200-day moving average near the 2590 area. Technology stocks have been leading the underperformance over recent weeks (Intel and Amazon the most recent casualties), but equity weakness probably overstates true concerns over the US growth cycle. More light should be shed on US activity this week in the form of US jobs and wage data on Friday. Here we think price pressures are starting to emerge in the US labour market, although the Fed Funds cycle priced by the market already has another 60bp of tightening discounted by early 2019. This all makes for a mixed environment for the dollar. USD hedging costs are high, but US trade policy is geared towards a weaker dollar and we think the risk of retaliatory tariff measures from the likes of the EU and China remains a significant near-term risk. At present we prefer to view narrow DXY ranges as bearish consolidation before the next move lower this Spring.

EUR: 1.2240/50 should be important support this week

Incredibly subdued trading conditions in EUR/USD have seen traded volatility levels soften, but not decline all the way back to those seen last December. We think volatility could pick up again if we're right with our call for an upside break-out in EUR/USD later this quarter. For the early part of this week, we see important EUR/USD support around the 1.2240/50 area, which we expect to hold. Away from US data, we will see Eurozone March CPI data tomorrow. A modest pick-up to the 1.4% YoY area is expected for the headline, core rising to 1.1%, but this looks unlikely to swing the ECB to a more hawkish setting.

GBP: Range-bound

GBP maintains its well-worn ranges, notably having failed to break key levels in EUR/GBP at 0.8700. Softer UK manufacturing PMI should keep trading subdued.

Korean Won: USD/KRW trades comfortably below 1060

USD/KRW looks to be comfortably trading below the 1060 area, which had proved a good support level so far this year. It's probably too early to link this move to Apple's decision to make its own chips for its products by 2020 (Korea is a major player in the semiconductor space). Instead, the move may follow last week's developments, where Washington has sought greater transparency on BoK liquidity management exercises in the FX market. In particular, the market may feel the BoK is more constrained in providing KRW liquidity at key USD/KRW levels, wanting to avoid criticism in the forthcoming US Treasury semi-annual report on FX markets. Short USD/KRW is one of our top trades for 2018, with a multi-month target down at 1000.