

FX: Emerging market rebound fades

A further impasse in US-China trade talks is weighing on risk currencies and reinforces our view that the rebound in emerging market currencies over the past few weeks has been fragile and unsustainable



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➔ USD: EM FX rebound unlike to last

Emerging markets and higher beta currencies started the week on the weaker side as a further impasse in US-China trade negotiations (China postponing planned trade talks) weighed on risk currencies. The risk of little progress and a further escalation of trade wars in our view underlines the fragile nature of the emerging market FX rebound during the past few weeks and suggests very limited scope for further gains. On the data front, the focus of the week is on the FOMC meeting (Wednesday). Bar the well-telegraphed rate hike, we don't expect the Federal Reserve to change course and expect it to remain committed to gradual normalisation. This should, in turn, provide a little respite to emerging market FX.

➔ EUR: German IFO to provide modest support to euro

In Germany, our economists expect another increase in the September IFO, pointing to solid growth in the remaining months of the year. This should be marginally EUR positive. In Sweden, the market will be focusing on a speech by the Riksbank's Robert af Jochnick. But with the Riksbank's 25 basis point hike priced in with an 80% probability by 1Q19 and a completely priced

out risk premium in the Swedish krona, we see limited potential for a further Riksbank-induced boost to the currency. In fact, we look for the Brexit uncertainty to be SEK negative, at the margin. Expect EUR/SEK to remain above the 10.30 level.

📌 **GBP: Trading on the soft side ahead of Tory party conference**

Following the stand-off between the UK and the EU at the Salzburg summit and Prime Minister Theresa May's defiant speech last week (where the phrase 'no deal is better than a bad deal' made a reappearance), we doubt the tone will lift over course of this week. We expect May to continue to adopt a hard-line ahead of the Tory party conference, which begins on 30 September. This, in turn, suggests an ongoing softness in the pound, with EUR/GBP to trade around the 0.90 level. With the Swiss franc inversely matching the latest sell-off in sterling (given the franc's regional safe-haven characteristics) and the pound's politically-related softness expected to continue this week, we expect to see EUR/CHF breaking below the 1.1200 level this week.

📌 **NZD: No surprise coming from the central bank**

The Reserve Bank of New Zealand meets today and it looks likely it'll stick to the script of no rate change for two years with a symmetrical bias around a 1.75% policy rate. Both business and consumer confidence look fragile, and with China growth slowing, the chances of a more positive turn seem low. As no change is widely expected, the decision itself should have a fairly limited impact on the New Zealand dollar. We'd like to have much more clarity on both protectionism and Fed policy, before declaring a major cycle low in NZD/USD.