

## FX: The Republicans' House of Tax pain

The only thing jumping around is the US dollar



### USD: Limited positive catalysts

Global markets haven't batted an eyelid to the House Republicans passing their version of the Tax Cuts and Jobs Act through – not least because the spotlight has been stolen by reports that US Special Counsel Robert Mueller has issued subpoenas to President Trump's 2016 election campaign officials. Add to this the noise surrounding US-North Korea diplomacy and it's difficult to see anything but the US dollar losing out in an environment where policy and political uncertainty remains elevated.

Indeed, the true test for the Tax Bill now comes in the Senate, where the GOP has a very thin lead and tricky task of appeasing both the fiscal hawks and conservatives within its more stricter budgetary framework. But with Congress now in Thanksgiving recess, we see limited positive catalysts for the dollar in the week ahead – with only a Yellen speech (not confirmed) and FOMC

minutes to look out for. Fed policy remains a factor for only short-term players in the market, with the big picture of an exhausted Fed hiking cycle all but priced in the dollar. Shaky global risk sentiment could see DXY close sub 93.50 (50-dma).

## EUR: Look for consolidation around 1.18 after a good week for the euro

It's been a positive week for the EUR, with the single currency moving up to 1.18 against the USD. While this is in line with our year-end target, the risks are that we move back up towards 1.20 – especially if the nervousness in global markets persists. Long EUR and short high-beta currencies (AUD, NZD) look attractive.

## GBP: Bulls retain faith in Brexit progress as talks enter 'squeaky bum time'

As Brexit talks enter what can only be described as 'squeaky bum time' (see right for reference), the resilience of the pound this week is an indication of its cautiously optimistic bias ahead of the pivotal December EU summit. It's clear that UK officials are ramping up their efforts to break the impasse, albeit in their own unique way; Brexit Minister, David Davis yesterday said that talks should not put 'politics over prosperity', while also reigning back on his claim earlier in the week that odds of getting a deal are 50:50 – by stating that a No Deal seems 'incredibly unlikely'.

The Prime Minister, Theresa May, is meeting with the EU Council President Donald Tusk today to make progress on Brexit divorce proceedings. The focus will also shift to the Chancellor's Budget next week; while Philip Hammond's hands will be tied by weaker OBR growth forecasts – as well as higher inflation forecasts that may increase debt-servicing costs – any growth gimmicks may lend itself to a steeper UK rate curve. With GBP bulls retaining a 'gotta have faith' mantra in regards to Brexit talks, we could see the rally in GBP/USD extend beyond 1.3250-1.3300

'Squeaky bum time': Attributed to Sir Alex Ferguson, famed Scottish association football manager and former player referencing the sound made by moving around in a plastic seat while squirming under pressure (Wiktionary)

## CAD: Neutral bias amid conflicting BoC, NAFTA and US tax sentiment

With sentiment over a Jan 2018 Bank of Canada's rate hike still mixed (markets are pricing in 40% odds), today's October CPI report will be crucial. Governor Poloz's latest speech defended the BoC's sanguine inflation projections – which still primarily attributes the deviation from target to 'other' factors. With the lagged effects of the summer CAD rally also to factor in, the inflation outlook is set to get worse – before it gets better. The macro fallout from tighter local financial conditions may keep the BoC on hold in 1Q18, meaning that some trivial CAD downside is likely. However, the bar for USD/CAD to move above 1.30 is high. We retain our 4Q17 target of 1.27.