

## FX: Time for a little caution on the euro

On March 4th, Italy goes to the polls and German SPD members vote on a proposed coalition. We think the latter risk is under-priced. Caution is advised



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### USD: A little consolidation looks likely

The dollar has found a little support this week, helped by Fed confidence that the economy and inflation are moving in the right direction. This theme may extend for a few more days given that later today we'll see the Fed release its semi-annual Monetary Policy Report ahead of Jerome Powell's first testimony as Fed Chair to Congress next Wednesday. Unless the Fed starts drastically revising its long-term neutral interest rate, however, it's hard to see this theme driving the dollar much higher (short-term USD rates 10 years forward are close to the Fed's current long-term rate of 2.75%). Instead, we expect investors and corporates to use any 2-3% correction higher in the dollar to position for multi-year dollar weakness as the US business cycle moves into its later stages. The US dollar index breaking above 90.56 would warn that the USD correction has further to run.

### EUR: BTP:Bund spreads starting to edge wider

March 4th is a big day for European politics. We'll see both an Italian election and also German SPD members voting on whether they support the proposed CDU:SPD coalition. Our team think the latter risk is under-priced, with a 40-50% chance the coalition deal is rejected. There is a scenario that sees Chancellor Angela Merkel stepping down. After a very good run for the EUR, this event

risk could see a further scaling back of EUR long positions and a break of 1.2260 in EUR/USD could warn of a sharpish move towards the 1.2100 area. Caution is advised.

## SEK: Riksbank minutes to show dissent

Minutes will today be released of the Feb 14th Riksbank meeting. [Our interpretation](#) at the time was that the Riksbank was pushing back the expected first hike from summer 2018 (we look for a hike in 4Q18), but dissent was brewing as Dep Gov Henry Ohlsson voted for a hike. Since then we've seen soft CPI data and the market struggles to price in 20bp of tightening by end year. While SEK is undoubtedly cheap at 10/EUR, it doesn't look like today's minutes will turn the trend of a weak SEK around.

## RUB: Russia could see a ratings upgrade today

S&P and Fitch provide a ratings update on Russia's sovereign rating today. As [Dmitry Polevoy notes](#), both agencies have Russia on a positive outlook, with any upgrade from S&P today taking Russia back into investment grade territory. Russia's 5-year CDS is already trading very tight at around 110bp – warning of a set-back to OFZs and the Ruble if both rating agencies merely retain their 'positive' outlook. However, we think there's a chance that they make a move today and when combined with firming crude and reports of large Ruble tax payments due Monday, EUR/RUB could correct under 69.

### Author

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

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