

FX: Trade impasse suggests more volatility ahead

Renewed volatility in USD/CNY, plus USD/TRY crossing 6 along with Wednesday's South African elections suggests it could be a difficult few days for risk assets



➔ USD: Trump's last minute posturing adds to volatility

Volatility has picked up in financial markets after President Trump threatened to increase tariffs on Chinese imports this Friday. This looks a clear warning to China not to renege on any trade commitments and to get the US-China trade deal over the line (there had been talk of a Trump-Xi summit later this month). News today that China's chief trade negotiator, Liu He, will visit the US after all later this week will help calm some nerves. However, the renewed volatility in USD/CNY, plus USD/TRY crossing 6 and Wednesday's South African elections suggests it could be a difficult few days for risk assets. With high cash rates, the dollar actually performs quite well as a safe haven asset these days and the best hope of some dollar weakness coming through is still from: a) some genuine US slowdown which the Federal Reserve acknowledges (unlikely in the near term) or ii) some positive re-rating of overseas economies (possibly seen if the US-China trade deal can get agreed). With little US macro data today (Friday's CPI the highlight this week), expect DXY to stay quite bid near 98.00.

➔ EUR: European Commission forecasts in focus

In a quiet session for data, the focus may fall on the European Commission spring forecasts. As recently as February, the EC had forecast GDP at 1.3% this year and 1.6% next, with inflation at 1.4% and 1.5% for 2019 and 2020, respectively. The 2019 forecasts could be nudged a little lower in line with the ECB March forecasts (1.1% and 1.2% for GDP and CPI), but this story looks already to be in the euro. Expect EUR/USD range trading 1.1150-1.1250.

⬇ GBP: Friday's 1Q19 GDP in focus

Cross party Brexit talks should be coming to a head this week, with speculation of a customs union until 2022. There's much uncertainty here and an inventory inflated 0.5% 1Q19 GDP release this Friday may not help. Favour EUR/GBP to 0.86.

➔ AUD: RBA signals it's in no hurry to cut rates

Analysts had marginally favoured a rate cut at today's Reserve Bank of Australia meeting, but the RBA failed to deliver and gave no immediate signs it would be easing policy any time soon. While acknowledging low inflation and spare capacity, the RBA gave weight to the support given to the economy from infrastructure investment, even while households grappled with the housing market downturn. That said, the focus was left squarely on the labour market, where the best hope of inflation returning to target seems to come from higher wages. Today's position from the RBA marks a correction to the recent trend in G10 FX, where expectations of policy normalisation have been scaled back and fresh easing (particularly in Australia and New Zealand) has been priced in. Today's move probably buys a temporary reprieve for AUD/USD, but not until we see some genuine signs of a US slowdown and a Fed rate cut should we expect a sustainable bounce.

Author

Chris Turner

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

chris.turner@ing.com

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