FX: Underinvestment hurts

Sizable year-to-date gains in equity markets have made it painful to be sitting on the sidelines. But will the risk rally contiue?

USD: Cautious Fed should underpin risk this week

The highlight of the US calendar this week should be Wednesday's FOMC meeting, where its 2019 data-dependent approach should be repeated. The market is probably expecting some down-shift in the Dot Plots (which currently see two hikes in 2019 and one in 2020), plus some more discussion on the end of Quantitative Tightening - i.e. stopping its balance sheet reduction. This should maintain a positive environment for risk, especially if the European story can somehow improve (see below). The strong rally in risk assets this year will be asking questions of under-invested fund managers, where sizable year-to-date gains in equity markets make it painful to be sitting on the sidelines. While we do think the dollar can hold its own against the low-yielders (please see our latest FX talking), the current low volatility environment plus decreasing headwinds should be positive for high yield and emerging markets FX in general. We continue to favour high yield FX against the Japanese yen, while the dollar index should trade 96-97.

EUR: Brexit and the March PMIs will set the tone

EUR/USD is nudging higher as investors consider reducing their short positions in Europe. Here both developments on Brexit and the March eurozone PMIs (released Friday) will be key. After last week's slightly better than expected eurozone industrial production, the big question this week is whether the German manufacturing PMI can at least stabilise or even follow the French reading back above the 50 level – this in response to better trade headlines. Exceptionally low levels of volatility suggest EUR/USD is going nowhere fast, but we favour it edging towards the 1.1400 area this week. Elsewhere, the Norweigian krone has been performing well and should continue to do so into Thursday, where a 25 basis point Norges Bank rate hike to 1.00% is expected. With the Saudis keeping oil bid, favour EUR/NOK to 9.58.

GBP: The paths seem positive

It's unclear whether Prime Minister Theresa May will be in a position to put her Meaningful Vote III (MV3) to parliament for a vote on Tuesday. This, in theory, should then lead to a series of indicative votes searching for a consensus over: (i) a long delay, (ii) a softer Brexit and (iii) a second referendum. That looks reasonably GBP supportive to us and with GBP one week implied volatility (15%) suggesting GBP is coiled like a spring, there is a path for a substantial upside break-out - were a benign path of events to unfold. 1.3350/3400 will be the key area to break for cable.

CHF: THE SNB meet on Thursday

The Swiss National Bank meets on Thursday and should echo the dovishness seen at the March European Central Bank meeting. Maintaining 3m CHF Libor at -0.75% well into 2020 looks very likely, as does continuation of FX intervention to limit Swiss franc gains. 1.1300/1310 to remain a strong support level for EUR/CHF.

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