

## FX: US dollar to stabilise

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### ➔ USD: The dollar to stabilise vs G10 low yielders

Global markets stabilised after a sharp fall in risk assets on Friday, as a solid IFO survey from Germany reduced concerns about a global recession. This, coupled with the dovish Fed stance and rising oil prices (due to concerns about Venezuela oil supply), suggests that Latam FX should outperform other emerging market regions given its exposure to oil and commodity prices. We continue to favour the Mexican peso, with the upcoming Banxico easing cycle (to start by 3Q19 at the latest with cuts worth 175 basis points by mid-2020) to support the currency via bond inflows. With US rates already experiencing a meaningful adjustment lower (markets now pencilling in a full 25 basis point Fed funds rate cut this year) and in our view, limited scope for any imminent move down in US rates, we expect USD to stabilise vs G10 low yielders such as the euro and Japanese yen.



## EUR: Some breathing room ahead

The better than expected German IFO yesterday has given some breathing room to risk assets, the euro and European FX (Scandinavian currencies in particular), sending a tentative signal of relief for the German economy ([see Germany: Some balm for the soul](#)). We thus expect EUR/USD to stabilise around the current level of 1.13 and see limited downside for the rest of week, particularly if we see a modest revision lower to US 4Q GDP on Thursday.

## ➔ GBP: Series of indicative votes on Brexit to be held on Wednesday

Defying the government, the UK parliament passed a motion on a series of indicative votes for Brexit to be held this Wednesday. We see it as likely that the majority will opt for a move towards a permanent customs union, which would in turn mean an extension of Article 50 to the end of the year. While a longer Article 50 extension now seems likely, the odds of a possible Bank of England rate hike have been reduced due to the global backdrop.

## ⬇️ HUF: The start of long-awaited normalisation

As all of the main inflation indicators are now above the inflation target, the National Bank of Hungary has reached the point of no return and should start the process of BUBOR normalisation today. We look for a 10 basis point hike in the overnight deposit rate to -0.05% and a HUF200-300 billion reduction in the outstanding amount of FX swaps. However, we look for a rather dovish hike as the NBH is unlikely to pre-commit to aggressive tightening. While there may be some disappointment vs what is currently priced in, we don't look for a repeat of the 2Q18 price action when the forint sold off aggressively. Back in 2Q18, the market questioned the NBH's credibility. This time around, the NBH is regaining its credibility via the start of BUBOR normalisation. Hence, any spike in EUR/HUF higher should be limited and temporary, with the pair trading in the 310-320 area during the year.