

FX: US extends watchlist for currency manipulators

The US Treasury has refrained from labelling any country as a currency manipulator but China remains on the watchlist



Source: iStockphoto

USD: Watchlist for currency manipulators extended

In its long awaited semi-annual FX report (delayed from mid-April), the US Treasury refrained from labelling any country as a currency manipulator. Still, after a modest change to the criteria (current account surplus threshold criteria was reduced from 3% to 2%), nine countries are currently on the watch list. This includes China, which only meets one of the three criteria, but remains on the list due to its larger trade surplus with the US – clearly indicating no change in the US administration's stance on the trade dispute with China. We expect a neutral effect on FX markets as the report didn't deliver a material surprise. In Mexico, Banxico releases its Inflation Report today. It should confirm a more downbeat view on GDP. On inflation, data has been higher than expected in the previously-released forecast trajectory so the bank should continue to sound quite cautious in its characterisation of inflation. That said, our economists forecast two rate cuts later this year. Those cuts could lead to inflows into local debt, thus supporting the peso.

➔ EUR: Still more downside vs the dollar

The euro weathered the European elections but the upside for EUR/USD remains limited. We continue to look for EUR/USD 1.10 in June with the current benign US dollar environment being a negative for the cross.

⬇️ SEK: Fairly limited reasons to turn cheerful on SEK

Following the surprisingly strong 4Q18 GDP number, we expect Swedish growth to normalise, declining from 1.2% quarter-on-quarter in 4Q18 to 0.2% QoQ in 1Q19, with consumption remaining lacklustre and the decline in house prices taking a toll on real estate construction. With inflation below target, there is no urgency for the Riksbank to normalise (still negative) policy rates any time soon. As for the Swedish krone, we see the recent correction in EUR/SEK lower as temporary and driven by positioning. We continue to pencil in more upside to the cross given the risk of a further escalation in US-China trade tensions and possible eurozone auto tariffs, limiting the attractiveness of the low yielding but high beta SEK.

⬆️ CAD: BoC meeting likely a positive

The Bank of Canada is widely expected to keep rates on hold today, with the market likely focusing on the central bank's forward-looking language. We expect a broadly constructive tone on the economic outlook, mainly on the back of easing trade tensions with the US and a generally resilient labour market. In turn, investors may be prompted to scale back rate cut expectations, which would ultimately keep CAD supported on the day. Accordingly, USD/CAD could pare recent gains and retrace to the 1.3440 area.

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