

FX: German IFO is key for today's price action



Shoppers in Lubeck, Germany

➔ USD: Mueller's probe a USD positive as it reduces USD built up risk premium

Asian equity markets caught up with Friday's US and European sell off. FX markets paused for breath overnight. The German IFO index will be key for the price action in global markets today as it will either confirm or deny market concerns sparked by the weak eurozone PMIs on Friday. Although the US yield curve inversion (for the first time since 2007) sent shock waves through markets on Friday, our economists still don't expect a US recession either this year or next given the still-solid US economy. Rather, we view the trend of global curve flattening as natural at the current stage of the cycle, in line with a gradual economic slowdown. Hence, unless we see a rather weak German IFO today, we expect FX markets to stabilise (in line with the price action overnight) and, for now, Friday's dent to risk assets is seen as a one-off. As for the dollar, we view the outcome of the Mueller probe as USD positive as it reduces the odds of a President Trump being impeached.

⬆️ EUR: German IFO the key for today

Following the disappointing eurozone March PMIs (mainly the decline in manufacturing), all focus is on today's German IFO. Another disappointment could translate into an extension of concerns about global growth and lead to a further EUR/USD decline / emerging markets FX sell off. Following some signs of stabilisation in the German ZEW, our economists are looking for a stable

IFO today, supporting the view of a gradual recovery of the German economy in the first half of the year. This should stabilise EUR/USD and general risk appetite after the pronounced sell off on Friday

➔ **GBP: Moving towards a series of indicative votes**

Following speculation about a cabinet coup against Prime Minister Theresa May over the weekend, the focus turns to today's cabinet meeting and the likely series of indicative votes (on parliament's preferred path for Brexit) later this week. We expect GBP gains to pause after the meaningful rally on Friday, with the EUR/GBP 0.85 level to be breached if parliament leans to towards a softer Brexit option.

➔ **JPY: The preferred safe haven**

The Japanese yen benefited meaningfully from the mix of the dovish Fed (Wed) and the flight to safety (Fri). Given our non-negative view on German data today and signs of FX market stabilisation overnight, we expect USD/JPY to stabilise around the 110.00 level and is unlikely to start testing 109.00 today.