JPY: Safe port in a short term storm

While the dollar is still performing well, we're a little worried that US equity markets could start to suffer if tariffs on Chinese goods go into effect, and thus prefer to hold defensive positions in the Japanese yen

Source: Shutterstock

USD: Dollar has safe haven properties, but we prefer JPY

As yet, this week's renewed trade tension between the US and China is unresolved. Chief Chinese negotiator Liu He is in Washington today and tomorrow. Unless talks get back on track, US tariffs on US$200 billion worth of Chinese goods will be raised tomorrow – prompting retaliation from China. These are probably the final few acts before a deal is struck, yet investors will be reluctant to hold risk assets until some clarity emerges. The best barometer for current tension is USD/CNH, where the basis over onshore has now widened to 250 pips. This may push out to 400 pips depending on what occurs in the twittersphere today and as we highlighted yesterday, USD/CNY slipping its anchor will unnerve activity currencies around the world. Here the Korean won, Canadian dollar and Indonesian rupiah tend to have the highest betas to the Chinese yuan. While we note the dollar is still performing well, we are a little worried that US equity markets could start to suffer if those tariffs go into effect and thus would prefer to hold defensive positions in the Japanese yen. Short CAD/JPY positions could become popular for the short term, given that the CAD is not an expensive sell. Elsewhere, the Fed's discussions over monetary policy strategy are rather taking a back seat to trade and the 20bp of Fed easing discounted for year-end looks set to stay.

EUR: Caught in the middle

Next week's German GDP figure could surprise on the upside, but before then the euro has to deal with global trade tension. We continue to favour a 1.1150-1.1250 range in EUR/USD until trade issues are resolved. Elsewhere, we think the Hungarian forint could underperform, as the market questions whether central bank policy is too loose. Our team sees risks of a 4%+ year-on-year April CPI figure today, raising questions as to why the policy rate is at a mere 0.16% (3m Bubor). EUR/HUF to 325.

GBP: Steady ahead of 1Q19 GDP tomorrow

News that Prime Minister Theresa May's leadership cannot be challenged before December is probably a minor positive for sterling. Still see cable vulnerable to 1.2950, GBP/JPY to 140.

NOK: Re-affirmation of policy path to help NOK

The Norges Bank meets today and is widely expected to keep the deposit rate at 1%. Typically, Norges Bank saves changes in policy to meetings accompanied by Monetary Policy Reports (MPR), the next release of which is on 20 June. Having seen its peer group (Bank of Canada, Riksbank, Reserve Bank of Australia & New Zealand) all turn more dovish over recent weeks, it will therefore be quite a surprise to hear Norges Bank sticking to the script of a rate hike over the next six months – but that's what we expect, basically a re-affirmation of the last MPR. If that's the case, we'd expect EUR/NOK to hold under support at 9.85/88 & NOK/SEK to push through the 1.10.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com