

## Risk on, Crude on, Dollar on

It's tempting to look for a risk on, dollar off scenario but keep an eye on crude prices



### 📈 USD: The dollar may perform, even though risk assets are rallying

Global equity markets are enjoying some short term gains, buoyed by what seems to be productive discussions in US:China trade relations. European equities, especially banks, also got a lift Friday on comments from the European Central Bank's Benoit Coeuré that the inflation path will be shallower and the 'ECB has to adapt'. While it is tempting to look for a risk on, dollar off scenario (as investors put money to work outside of the US), it's worth keeping an eye on crude prices, where Brent is now approaching \$67/bl. Last year, US rates followed crude prices with a short lag and thus it would not be a surprise to start seeing US rates (e.g. two-year swap rates now 2.65%) pushing a little higher over coming weeks. There's also a case to be made that higher crude prices are also a relative Terms of Trade positive for the dollar as well. Beyond today's US Presidents' Day holiday, the US highlight this week will be January's FOMC mins (Wednesday), a variety of Fed speakers (starting with Cleveland Fed President Loretta Mester tomorrow) and then DGOs and Existing Home sales on Thursday. There is always a risk that President Trump could tweet about Commerce Department recommendations for auto tariffs ([perhaps one option of 25% tariffs](#)), but for the short term, we would see the risk environment staying positive and USD/JPY pushing onto the 111.00/111.40 area. DXY support 96.35.

## ➔ EUR: Support for equities, rather than the euro

European bank stocks enjoyed an immediate lift on Friday on remarks from Coeuré that another TLTRO could be considered. His remarks on the inflation path also suggest the ECB could even opt for a dovish shift in forward guidance (perhaps even at the 7 March meeting). While a rotation into European equities might be considered a euro positive, there are still plenty of risks which should prevent much of a recovery, such as: a) do Eurozone Feb PMIs out this Thursday show another leg lower in manufacturing confidence – especially Germany? b) Does Fitch follow through on its negative outlook and downgrade Italy to BBB- on Friday? We'll also be hearing from ECB speakers (Peter Praet Tuesday-Thursday and Mario Draghi Friday), which could provide more insights on renewed dovishness. EUR/USD rally may be limited to the 1.1375 area.

## ➔ GBP: Another fruitless week in Brussels?

Prime Minister Theresa May is in Brussels again this week, seeking to secure amendments to the Irish back-stop. Expectations of any progress here are virtually nil – and that's perhaps what could be helping sterling here – i.e. the increasing view that the Cooper-Boles amendment (of a substantial Article 50 delay) could have a better chance of passing in parliament on 27 February. Cable should be capped at 1.30.

## ➔ CE4: Enjoying gains

[Strong Czech 4Q18 GDP](#) and a [Hungarian upgrade](#) are contributing to some outperformance of CE4 currencies. We'd prefer to back Hungarian forint gains on the central bank normalisation story, where rising inflation should allow the bank to [move ahead with the adjustment of its stock of FX swaps as well as a deposit rate hike at its 26 March rate meeting](#).

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