

Rotation into safety?

The softening in US interest rates and continued sell-off in tech stocks could lead to some rotation into the perceived safety of the yen



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📉 USD: Softening in housing softens the dollar

Two stories are catching our eye at the moment. The first is the softening in US interest rates in response to some Fed remarks last week and signs that an interest rate sensitive sector of the economy, housing, is slowing. US 30-year mortgage rates recently went above 4.80% for the first time since 2011 and the market took note of a drop in homebuilder confidence yesterday. Look out for October Housing Starts and Building Permits today where a failure to rebound from some soft September figures could see some further softening in US rates and the dollar. (Our core view, however, is that this is a short correction in US rates and the dollar).

The second issue is the continuing sell-off in US tech stocks. This sector had been outperforming US equities and been one of the very few asset classes with positive returns in the world this year. It seems investors are trimming overweight tech positions into year-end, reassessing the role of the US-China trade war. US chip-maker Micron fell sharply yesterday after Chinese authorities revealed 'massive evidence' of anti-competitive behaviour. The Nasdaq 100 looks to be breaking down from a two-year bull trend and warns of another 8% correction. Given speculators have been long dollars, if a tech sell-off dominates, there may be a brief window for USD/JPY to trade to the 111.40

area. DXY to drift towards 95.70/96.00.

➔ EUR: Getting a breather from high US rates

EUR/USD is getting a lift from the softening in US rates, even though the eurozone macro/political/rates story looks soft. We think this move could stall at the 1.1500 area ahead of soft eurozone PMIs on Thursday.

➔ GBP: Carney testifies today

There's been little substantive progress on Brexit. Tory rebels are increasingly being discredited in the UK press, which could give Prime Minister Theresa May some breathing room. Look out for Bank of England Governor Mark Carney's testimony today. Brexit will dominate the discussion, but on the rate side, expectations of a BoE hike over the next year have been scaled back to less than 25 basis points, suggesting slight upside risks to UK rates and the pound today.

➔ HUF: No change from the central bank, no change in EUR/HUF

We look for no change from the National Bank of Hungary today, be it the interest rate or its forward guidance. Although the Hungarian October CPI surprised on the upside at 3.8% year-on-year, the NBH has already signalled that this was driven by temporary factors. With oil prices falling sharply in recent weeks, the November CPI reading should be much lower (3.5% based on our estimates) supporting the on-hold stance from the inherently dovish NBH. With the Bubor firmly stable (and in fact declining) and the decreasing likelihood of inflation breaching the 4% upper tolerance band, we look for limited spill-over into EUR/HUF today.

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