

Rouble: Benign neglect

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Source: istock

RUB: Few seem worried by the decline in the rouble

The USD/RUB crossed the 70 level yesterday without much fanfare. The catalyst for the move seemed to be remarks from a Kremlin aide that a rate hike at this Friday's CBR meeting would be 'highly undesirable'. This drew parallels to Turkey, where politicians have been reluctant to back CBT rate hikes. Unlike Turkey, however, inflation is only rising off a low base in Russia (now 3.1% year on year) and Russia enjoys twin surpluses largely due to its status as an energy exporter. Even though the Ministry of Finance has cancelled FX purchases under the Fiscal Rule until the end of September, we've heard little protest from Russian authorities about the weaker rouble – perhaps on the view that there is no point wasting FX reserves in supporting the rouble ahead of a [potential fresh round of US sanctions later this year](#). On that subject, the Senate Banking Committee holds a hearing on Russia today. It seems too early for a defensive 50 basis point CBR rate hike this Friday and with little official protest, [USD/RUB can head to 75 by year-end](#).

USD: Temporary calm allows some breathing room for battered currencies

FX markets are currently enjoying a period of temporary calm, buoyed by some better news on Brexit and expectations for a stabilising rate hike in Turkey on Thursday. We doubt, however, investors will want to chase this story too far given what should be strong US data later this week (firm core CPI Thursday, strong retail sales on Friday) and the risk of President Trump at any moment signing into law a 25% tariff on the next \$200 billion of Chinese imports. The data calendar is light today, but a National Federation of Independent Business reading near cycle highs should serve as a reminder that small businesses, responsible for half of all hiring in the US, are doing very well indeed. We see the US dollar index trading a 94.80-95.70 range today.

EUR: Assurances from Italian officials lift BTPs – for now

Italian officials appear to have done a good job in calming market fears over a loose 2019 budget, with the BTP-Bund spread now moving to the tightest levels since early August. However, there's a long way to go until the budget is submitted later this month. The euro is currently enjoying the tailwind of a GBP rally and a decent German ZEW could push EUR/USD to 1.1650/60 – but as above we wouldn't chase the move. Elsewhere, Riksbank Governor Stefan Ingves speaks in London today and may disappoint those looking for an early Riksbank hike. The Hungarian forint may also come into focus as the European Parliament prepares for tomorrow's Article 7 vote on Hungary's 'illiberal democracy'.

GBP: Data today could be less GBP supportive

The pound is rallying on comments from the EU's Michel Barnier that a Brexit deal could be done in six to eight weeks. Mixed employment data could however cap cable at 1.3070/3100.

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