Sterling: More than just “Livin’ on a Prayer”

Ahead of the UK jobs report today, the pound is at its highest since the Brexit vote

Source: iStockphoto

GBP: ‘Darling of the FX world’, ‘Comeback Kid’... sterling’s living up to its name

GBP/USD is at its highest level since the Brexit vote – buoyed by seasonal trends, the anticipation of a May BoE rate hike and a politically weak US dollar. As we noted last week, it seems that we’re back to good old-fashioned UK data watching to determine the short-term direction for the currency. A 3% wage growth print in today’s UK jobs report should seal the deal for a May BoE hike – but it may be the activity data that holds the key to the pace of BoE policy normalisation and GBP’s cyclical re-pricing (ie, how far GBP/USD moves above our 2Q target of 1.45).

USD: Trump’s devaluation games merely fuelling weak dollar expectations

Like some sort of game of ‘America First’ policy bingo, we’ve had talk of trade, tariffs, geopolitics, national security – and so it was only a matter of time before President Trump criticised major trading partners for devaluing their currencies. In the usual policy-by-Twitter fashion, the President called out China and Russia for ‘playing the currency devaluation game’ as the US raises its interest rates – implying that both countries have been actively keeping their currencies lower during the Fed's current policy normalisation cycle. While the facts somewhat disagree with this – with both rouble and yuan currently at stronger levels against the US dollar relative to when the Fed began raising interest rates in Dec 2015 – one should not be too surprised by the President's tweet. As we've argued before, such mercantilist rhetoric implicitly highlights the current US administration's desire for a weaker US dollar – and we believe such expectations will remain entrenched in FX markets until credibly broken (see our Trump Trilemma). What may be more unnerving is the specific focus on both China and Russia – which given recent trade and geopolitical developments, only risks fuelling the current global tensions. Moreover, taking trade and geopolitical 'wars' into the currency space has often proven to be a toxic outcome for global markets; history shows how US officials talking down the dollar can escalate into a 'Sell America' bias – with a coordinated sell-off in US assets (including US stocks) weighing on global risk sentiment. While the market reaction hasn't quite been as detrimental, it's no surprise to see the USD trading on a weaker footing against currencies which run large external surpluses – for example, the euro, Japanese yen and Korean won (Chinese yuan to some extent as well). We expect this theme to remain in place as these currencies will broadly make up President Trump's 'FX watchlist' over the coming year. BBDXY index to test its cyclical lows – with risks of a decline to 1100 in the near-term.

EUR: Solid Eurozone data and Trump FX clampdown would see EUR/USD above 1.24

As noted yesterday, today's ZEW survey will be crucial to determining whether any 'animal spirits' in the Eurozone economy can be revived. EUR/USD bias to 1.2450.

CNY: China's changing growth patterns could see further AUD/KRW downside

ING's Greater China Economist Iris Pang notes how 1Q GDP in China grew 6.8% (in line with consensus) – though the devil is in the details. The strong Chinese consumer bodes well for future GDP growth, while the changing composition of investment growth – away from traditional industrial sectors to more high-tech manufacturing industries – is becoming more evident. China's changing growth engines may mean less future support for the Australian dollar – which relied more on China's old industrial investment growth model. Short AUD/KRW may be one way to benefit from this shift in China's growth patterns (we eye a move towards 800).