

Temporary reprieve for emerging markets

Emerging markets have stabilised amid a rebound in the Turkish lira. But further pressure on EM looks likely



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USD: Strong dollar and tariffs dampen RoW growth prospects

Notwithstanding a slightly better than expected German 2Q18 GDP release today it seems fair to say that President Trump's set of policies (fiscally-pumped growth and protectionism) are driving a wedge between growth in the US and the Rest of the World (RoW). The strong dollar means that the RoW is having to run tighter monetary policy to protect its currencies and, when combined with Washington's aggressive trade tariffs, are leading to lower growth rates. ([We've cut our China growth forecast today.](#)) There has been some suggestion that Trump wants it all including a weaker dollar – and of course you never know with Trump – but intervention from the US Treasury to weaken the dollar looks unlikely. Financial markets look set for a quieter day today, but further pressure on emerging markets looks likely given: i) another US deadline for Turkey to release

Pastor Brunson tomorrow, ii) the US likely confirming plans to apply 25% tariffs on a whopping \$200 billion of Chinese imports over coming weeks and iii) more sanctions coming through against Russia over coming months. Were that to be the case we think some of the better emerging market stories (Mexico and Poland) could be at risk purely as a result of heavy positioning. Support at 95.50/60 should hold any near-term DXY pull-back.

EUR: German GDP bounce-back provides a temporary lift

German 2Q18 GDP did bounce back after all (to 0.5% quarter-on-quarter from an upwardly revised 0.4% in 1Q18) and has provided a temporary lift to the euro. That should mean upside risks to eurozone growth at 11CET, where consensus is 0.3% QoQ. However, given so many unsettled issues in emerging markets and unpredictable US policy, we imagine sellers would return were EUR/USD to make it anywhere near the 1.1500/1520 area. We'll also see German ZEW today (investor sentiment compiled by analysts) with presumably downside risk to consensus.

GBP: Focus on earnings today

The pound has been overshadowed by EM events recently, but fears of a 'no-deal' Brexit remain very real and GBP remains fragile – especially against the dollar. Focus today on the UK wages data, where base effects could see wages (ex bonus) slip to 2.6% YoY and the employment data soften. GBP/USD upside looks limited to the 1.2820/50 area before a retest of the 1.2720 lows.

MXN : Domestic honeymoon challenged by positioning

Gustavo Rangel notes that new Mexican President AMLO is enjoying [a domestic honeymoon](#) after July's election victory. The Mexican peso could hold gains if the emerging market environment settles – but long MXN positioning is a worry if EM deteriorates.

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