

Temporary reprieve for risk assets

The July 4th holiday in the US should deliver only a brief reprieve for risk assets



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USD: The July 4th holiday offers respite

Risk assets may receive a temporary reprieve and the dollar could correct slightly weaker today as the US enjoys its Independence Day holiday. Far more interest in (and intervention against) a weaker renminbi from Chinese authorities has slowed the USD/Asia advance and should slow dollar demand across the board. Optimists can also find some solace in an [FT report](#) that the EU is looking at options of cutting tariffs on auto imports – potentially granting Trump a victory to take to his voters. The reality is, however, that another round of US tariffs against China is going into effect on Friday – likely prompting an immediate Chinese response. Not until polls turn dramatically against Trump (driven by lower equities or activity data) should one expect him to

change course. Also of note was the IMF's [Article IV on the US](#) released yesterday. Despite the understandable focus on protectionism, the fund's primary concern was that fiscal stimulus would trigger an inflation breakout and the Federal Reserve would have to raise the policy rate quicker. Indeed the IMF pencils in a 3.50-75% Fed Funds target for 2020. It's hard to be bearish on the dollar in the current environment and ahead of what should be some good jobs data later this week, we expect the dollar index (DXY) to find good support ahead of the 94.20 area.

EUR: Services PMIs in focus today

Europe sees the release of services PMI today, expected to show some stability after sharp falls earlier this year. And the Eurozone Economic surprise index is finally improving after a disastrous April-June period. Yet the euro bounce looks tough going against a strong dollar and gains over the 1.1720/1750 area will be hard to come by

GBP: World Cup dividend?

Winning a penalty shoot-out is unfamiliar territory to England fans and could help consumer confidence temporarily. Let's see what UK services PMI has to say today. We see slight upside risks after the construction PMI. Cable to 1.3290.

RON: NBR likely on hold today

Our [team in Bucharest](#) expects the National Bank of Romania to keep rates on hold at 2.50% today, with just a 30% chance of a rate hike. The preference will be to gauge the impact of the 200 basis points of hikes seen over the last 12 months, before potentially taking rates higher again in 2019 (we see a peak in the policy rate at 3.25% in 3Q19). Tighter liquidity also means implied yields on the Romanian leu (RON) are rising again (3-month now nearly 4%). Additionally, the RON is likely to be under less position-adjustment selling pressure compared to the heavily backed Czech koruna and Polish zloty. In all, we think the NBR can continue to keep EUR/RON in 4.60-4.70 range.

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