The dollar: Enough of the dialogue

Our FX team says the time for talking is over as they look to see where major currency pairs could be moving this Friday

The dollar looks exposed

True to his 2007 best-seller, 'Think Big and Kick Ass', Donald Trump is starting to implement his new National Security Strategy. In economic terms, this involves trade protectionism against national security threats. Notably, key allies have been exempted (until May 1st at least) from the steel and aluminium tariffs, leaving only China, Russia and Turkey exposed. Yesterday's announcement of 25% tariffs on up to US$60bn worth of Chinese imports is clearly an escalation – and started to elicit some retaliation from China. We also note the introduction of policy hawks, Mike Pompeo and John Bolton, to Trump's national security team probably mean a more aggressive stance to Iran – which could initially take the form of pulling out of the Iran nuclear deal in May and re-imposing sanctions – that may partly explain this week's rise in crude oil prices.

A weaker dollar is clearly part of the Trump economic plan. Suffering a large net foreign liability position (around US$8trn), the dollar looks exposed if the investment environment deteriorates. It is no surprise that the safe haven JPY and CHF are out-performing right now. And with global equity markets still adjusting, we continue to see more downside for DXY. 103.80 was our forecast low for USD/JPY this week and could be seen today as risk assets tumble.

EUR: Higher oil prices should be EUR/USD positive

EUR is holding its own in the current fragile environment. If oil prices do break higher on the back of Iranian tension, it may give the ECB greater confidence that CPI is on a sustainable path to 2% and embolden the hawks. EUR/USD probably trades flat and EUR/JPY trades lower in the current environment.

TRY: Trump's national security strategy won't help Turkey

The prospect of middle east tension rising on the back of a hawkish White House and higher oil prices won't help the TRY. Inflation will keep real rates low and could send USD/TRY to our 12m forecast of 4.15 much earlier.

RUB: CBR widely expected to cut 25bp today

Russia's central bank meets today and is widely expected to cuts its key rate 25bp to 7.25%. There is the very outside risk of a 50bp cut, but Dmitry Polevoy thinks there are still a sufficient number of meetings ahead in 2018 should the CBR want to adjust the speed of the easing. We do not see any significant impact for the RUB of OFZ markets from the CBR cut, which is well priced, but note reports of strong RUB demand over the coming week on the back of tax payments. While the rise in crude oil prices may not generate substantial RUB strength because of the new fiscal law, the rally in crude should at least keep the RUB supported and 6%+ hedging costs makes the RUB an expensive sell - despite geo-politics.

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