

## Trump comments boost Emerging Markets FX

President Trump has pressed for stability in the Chinese yuan, which we see as a positive for emerging markets FX



Dollars surrounded by Chinese yuan

### ➔ USD: Comments on CNY stability helping EM FX vs USD

Asian FX has recorded broad-based gains vs the US dollar in response to the news that the US administration has asked Chinese authorities for stability in the Chinese yuan in order to avoid competitive devaluation in response to US tariffs. While conceptually such a request is at odds with the notion of the free floating exchange rate (something China should be aspiring to and has been pressured to do so by the international community in the past), short-term we see it as positive for emerging market FX as a stable or stronger CNY is beneficial for this currency segment. On the data front, we expect the FOMC Minutes today to reiterate the cautious message from the surprisingly dovish January Federal Reserve meeting (special focus will be on the Fed balance sheet debate), in turn helping EM and G10 FX high yielders. In contrast, the low yielding segment such as the euro and Japanese yen should continue to lag.

## ➔ EUR: Limited EUR upside, but more SEK weakness in store

EUR upside vs USD should remain limited with a likely further soft eurozone February Consumer Confidence reading keeping the euro's gains in check. In Sweden, after the disappointing January CPI yesterday, we now expect EUR/SEK to break above the post crisis high of 10.7291 in 2Q19 and don't rule out a convergence towards 11.00 in the second quarter, as both domestic (weak growth, low inflation) and external factors make it difficult for the Riksbank to lean against SEK weakness - with a high bar for a defensive hike. See SEK: [Struggling to find the silver lining](#).

## ⬇ GBP: High bar for EU-UK negotiation progress today

Sterling rallied in response to the UK government spokesman's comments about potential progress on the Irish border issue at today's meeting. Yet, with EU officials remaining cautious and the previous experience of the UK government failing to offer a tangible or realistic alternative proposal, the potential lack of progress today may reverse some of the pound's gains particularly when it's trading 2% expensive vs the euro based on our short-term fair value model at this point.

## ➔ ZAR: Budget day arrives

South Africa's much awaited budget day arrives. In the past, budget days have spelt trouble for the South African rand, hit by revenue shortfalls or unambitious plans which are subsequently criticised by rating agencies. The focus today is how Finance Minister Tito Mboweni juggles support for troubled utility Eskom (which wants the government to adopt ZAR100 billion of its debt), without tipping the sovereign rating over the edge into junk territory. This looks a particularly tricky task for Mboweni, where low growth, a potential ZAR20 billion short-fall in revenue collection and gross debt already forecast to edge up to the 60% of GDP area over coming years really limits room for manoeuvre. What we would say is that the rand has been weighed by this news for most of February and any surprises in revenue or growth initiatives could see USD/ZAR holding below 14.25.

### Author

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

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