

## FX: Turkey's hawkish simplification

We expect Turkey's central bank to tighten rates today and simplify its policy framework. Plus, more on the dollar short squeeze and is the Takeda bid for Shire helping the pound?



### USD: Short squeeze might have a little further to run

It is a quiet day for the US calendar, although investors will be mulling some encouraging signs that Treasury Secretary Steven Mnuchin appears to be off to China next week to talk trade. This follows some more upbeat rhetoric around NAFTA (a possible deal in early May) and perhaps even President Trump finding a third way on Iran that doesn't see the US pull out of the existing agreement. Of course, all these hopes could turn to dust in just a few tweets, but with US Dollar rates very firm and our call for a slightly above consensus US 1Q GDP figure on Friday, this dollar short squeeze could have a little further to run. As Viraj Patel notes in an article [published on THINK yesterday](#), the dollar squeeze has been most severe against those currencies heavily backed by speculative investors (Mexican peso, New Zealand dollar and also sterling). Also, by moving back to 109, US dollar/Japanese yen has arguably removed the protectionist risk premium which was built into it from early February. Yet we doubt USD/JPY pushes above the 109.50/110.00 area. The US dollar index (DXY) looks biased to 91.70 over the short term, with 90.30/50 now proving support.

### EUR: EUR/USD holding up quite well

Arguably EUR/USD is holding up quite well given a speculative market heavily long EUR. Support is

holding in the 1.2150/2200 area and the market is probably waiting to hear from the ECB tomorrow before making its next move. We [wrote yesterday](#) on how European corporates may be reassessing USD hedge ratios given the near 3% annualised cost of hedging USD into EUR and definitely feel our bullish EUR/USD story requires feeding - either by Trump protectionism or by confirmation the ECB is on the path to ending QE towards the end of the year. 1.2150 remains good support, with outside risk of 1.2050 this week if the ECB disappoints or US GDP data comes in on the firm side.

## GBP: Is the Takeda bid for Shire helping?

The impact of M&A on FX is always hard to pin down, but it may be difficult to ignore what looks to be Japanese pharma Takeda's successful £46 billion bid for Shire PLC, with £20bn of that offer coming in cash. Whether GBP/USD can hold support at 1.3880/3920 will also be a function of UK 1Q18 GDP on Friday.

## Turkish Lira: We expect the central bank to tighten and simplify

Expectations are high that the Central Bank of Turkey is going to hike rates anywhere between 25bp and 75bp today. Currently, the CBT provides all its liquidity via the late liquidity window at an effective funding rate of 12.75%. We think the CBT will follow through on discussions of simplifying its policy framework and revert to funding at the one-week repo rate - but at 13.25%. i.e. a 50bp hike in the effective funding rate but a 525bp hike in the one repo rate. Use of the late liquidity window will be discouraged and it could be raised to a hefty 16%. And if we're correct with our view on the one-week repo rate becoming the effective policy tool, we see an interest rate corridor of +/- 75bp around 13.25%. If we're right, signs that the CBT is really prepared to address weakness in the Turkish lira could trigger a brief intraday rally and hold USD/TRY to 4.00-4.10 range near term. Inaction could see the TRY come under pressure again.

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