

Turkey: In need of a friend

The Turkish lira sold off another 3% in early Asia. International investors are looking for a response from policymakers to break the cycle of surging inflation and a weaker currency. So far, there's been no response



Source: iStock

USD: Unchecked losses in the EM space generates dollar demand

While it seems most fund managers still like the emerging markets growth proposition, few will be tempted to sell out of their high-yielding dollar cash and step back into EM until some of the key areas of concern are resolved. One of those is Turkey, where the lira sold off another 3% in early Asia – seemingly on the back of Japanese investors discovering that the TRY pays 13% for a reason. Here, international investors are looking for a response from Turkish policymakers to break the cycle of surging inflation and a weaker currency. No response has been forthcoming so far and investors fear that Ankara is trying to hold out until the 7 June central bank meeting, if not until after the 24 June elections. With Turkey exposed to FX borrowing and higher energy bills, the fear is that pressure will build further on Turkish corporates, particularly SMEs. Thus Turkey looks set to keep the EM asset class on the back foot and the dollar in the ascendancy. In the US today, the focus should be on another good new homes sales release and then the release of the 2 May

FOMC minutes. The market has nearly priced four hikes over the next year and unless the Federal Reserve strengthens its language around symmetric inflation targeting – US rates and the dollar can push on a little further. The US dollar index stills looks biased to 94.20.

EUR: Some better PMI data may not be enough to help

We were hoping that a bounce back in the May Eurozone activity data would be enough to help the euro (PMIs today). However, Italian news dominates and one of the top stories is whether the new Italian government will appoint euro-sceptic Paolo Savana as its new finance minister. If so, this plots the League/5 Star on a collision course with the EU and will probably weigh on the EUR. EUR/USD looks vulnerable to a hard test of the 1.1700/1720 area.

GBP: Taking advantage of EUR downdraft

Political woes in the Eurozone are neutralising some of the Brexit risk premia in the pound and allowing EUR/GBP to stay below 0.88. Consensus expects an unchanged 2.5% YoY April UK CPI today, where high petrol prices may offset the negatives of an early Easter. Pressure on the UK retail sector very much remains, but for the short term, EUR/GBP has a window to 0.8680/8720.

CHF: We're a little surprised the SNB has limited CHF strength

EUR/CHF has re-established its connection with BTP-Bund spreads and sold off sharply. We're a little surprised the Swiss National Bank hasn't been limiting the move more. However, investors buying the Swiss franc as a safe haven should be wary of the 10 June event risk in the [Vollgeld referendum](#) – which could be a major negative for the currency.

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