Uber and out?

Financial markets are taking news of tariff hikes in their stride while Uber's IPO may provide some temporary relief to risk assets

USD: Uber IPO may deliver temporary lift to risk assets

At 12:01am ET today US tariffs were raised to 25% on US$200 billion worth of Chinese imports. So far, financial markets have taken the news in their stride. It looks like investors expect some more constructive tweets from President Trump at the end of the second day of negotiations in Washington and these tariffs to be quickly withdrawn. That is not guaranteed, however, with some suggestion that Chinese authorities feel that more compromises are to be had from Trump. Until some clarity emerges here, we'd say risk assets, including US equities, look vulnerable – especially after the largely uninterrupted rally since December. For today, the focus on Wall Street will be Uber's IPO – 'conservatively' priced at $45 per share and presumably expected to surge on its NYSE debut. This may provide some temporary support to equities, but unless we see a breakthrough in US-China trade relations, we're fearful that the rally fizzles and the defensive mind set extends into next week. We therefore continue to favour defensive positions in the Japanese yen, which has the strongest negative correlation with the S&P 500 and also no correlation with the renmimbi. USD/JPY risks 108.50/60, while DXY trades 97.15-97.70. The risk of a slightly higher US core CPI (back to 2.1% YoY) may also limit the Federal Reserve's room to manoeuvre and not prove dollar positive.

EUR: Positioning is the Euro's biggest friend

EUR/USD briefly rallied yesterday when equities were selling off sharply – strongly suggesting the liquidation of short EUR, long EM carry trades. It's hard to define what the trigger levels are for such activity, but trade wars are not good for the eurozone. We still see a 1.1150-1.1250 range for EUR/USD.

CAD: April employment in focus

1Q19 UK GDP is released today and is widely expected to come in at 0.5% quarter-on-quarter driven by inventory stockpiling ahead of what was believed to be a Brexit deadline in March. Given the prospect of GDP correcting lower in 2Q19, we doubt the market will want to significantly re-price Bank of England tightening (8 basis points of hikes priced in over the next year) despite hawkish protestations from the BoE. That said, cable is near support at 1.2950 & we're more in favour of a trading range.

CAD: April employment in focus

After rallying on the back of a dovish Bank of Canada statement 24 April, USD/CAD has been trading a tight 1.34-1.35 range. Today sees the April employment figures where a small rebound is expected after a soft March figure. Given the global trade backdrop and unresolved issues with China, we feel it's a vulnerable time for the CAD, such that any miss on employment could send USD/CAD close to 1.3600. Our team is also a little bearish on energy prices over coming months, with OPEC+ unlikely to renew supply cuts at the late June meeting.

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